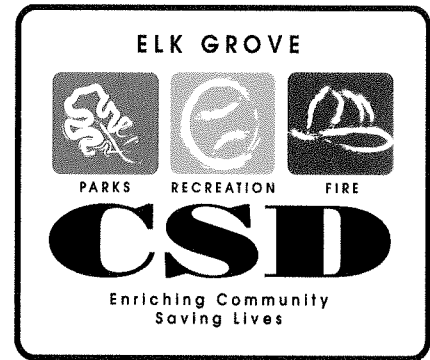


STAFF REPORT

DATE: July 18, 2006
TO: Board of Trustees
FROM: Jeff Ramos, Chief Operating Officer
**SUBJECT: APPROVAL OF FINANCING DOCUMENTS
FOR EMERALD LAKES GOLF COURSE PROPERTY**



RECOMMENDATION:

That the Board of Trustees adopts Resolution No. 2006-38:

- 1) authorizing the execution, delivery and performance of a Lease-Purchase Agreement between the Elk Grove CSD Public Facilities Acquisition Corporation (Corporation) and the Elk Grove CSD for the Emerald Lakes Golf Course Property, the Absolute Assignment Agreement between the Corporation and AIG Commercial Equipment Finance, Inc. and the Mortgage, Security Agreement and Assignment of Rents between the Corporation and AIG Commercial Equipment Finance, Inc.; and
- 2) authorizing the acceptance of title transfer by quitclaim deed of the Emerald Lakes Golf Course property from the CSD for the sole purpose of facilitating the financing and reimbursement of the District's costs and expenses of acquiring the property; and
- 3) authorizing and approving the execution and delivery of the financing documents required in connection with this property purchase; and
- 4) designating the General Manager to act as the authorized representative of the Corporation in respect to the Transaction Documents.

BACKGROUND/ANALYSIS:

As with the Dillard Ranch property, the Elk Grove Community Services District Public Facilities Acquisition Corporation will be used to finance the property acquisition. The advantages of this type of financing arrangement are that the payments made to AIG are considered rental payments and thus are not included within the CSD's calculation of its authorized debt limitation and the form of the agreements allows the CSD to use the property as it sees fit.

The mechanics of the financing are as follows:

- 1) The Corporation will enter into a Lease-Purchase Agreement with the CSD.
- 2) The CSD will transfer title of the property to the Corporation.
- 3) The Corporation will enter into a Mortgage, Security Agreement and Assignment of Rents and an Absolute Assignment Agreement with AIG Commercial Equipment Finance, Inc. wherein the rental payments made by the CSD are assigned to AIG by the Corporation.

ELK GROVE COMMUNITY SERVICES DISTRICT

Your Independent Local Government Agency Providing Parks, Recreation, Fire and Emergency Medical Services

Board of Trustees

Re: Financing Documents for the Emerald Lakes Golf Course

July 18, 2006

Page 2

The attached documents are as follows:

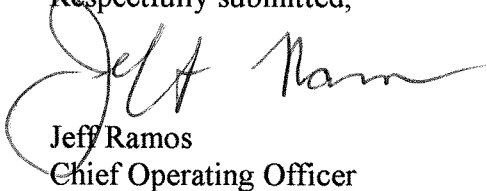
- 1) Resolution No. 2006-38 – this resolution authorizes the execution, delivery and performance of a Lease-Purchase Agreement between the Elk Grove CSD Public Facilities Acquisition Corporation (Corporation) and the Elk Grove CSD for the Emerald Lakes Golf Course Property, the Absolute Assignment Agreement between the Corporation and AIG Commercial Equipment Finance, Inc. and the Mortgage, Security Agreement and Assignment of Rents between the Corporation and AIG Commercial Equipment Finance, Inc.
- 2) Lease-Purchase Agreement – this document is the lease agreement between the Elk Grove CSD and the Elk Grove CSD Public Facilities Acquisition Corporation for the golf course property.
- 3) Mortgage, Security Agreement and Assignment of Rents – this document is an agreement with AIG Commercial Equipment Finance, Inc. which provides the security for the amount financed and assigns the rental payments to AIG.
- 4) Absolute Assignment Agreement – this document is an agreement with AIG to assign the lease rights to AIG.

Staff would like to note that upon the final payment of the debt service, title to the property will revert back to the Elk Grove CSD.

The attached documents have been reviewed and approved by legal counsel.

Should you have questions, please contact me prior to the meeting.

Respectfully submitted,



Jeff Ramos
Chief Operating Officer

Attachments

ELK GROVE COMMUNITY SERVICES DISTRICT

Your Independent Local Government Agency Providing Parks, Recreation, Fire and Emergency Medical Services

**ELK GROVE COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES ACQUISITION
CORPORATION**

RESOLUTION NO. 2006-38

A RESOLUTION OF THE BOARD OF TRUSTEES OF THE ELK GROVE COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES ACQUISITION CORPORATION AUTHORIZING THE EXECUTION, DELIVERY AND PERFORMANCE OF A LEASE PURCHASE AGREEMENT, ABSOLUTE ASSIGNMENT AGREEMENT AND MORTGAGE, SECURITY AGREEMENT AND ASSIGNMENT OF RENTS WITH RESPECT TO THE ACQUISITION, REIMBURSEMENT AND FINANCING OF CERTAIN PROPERTY FOR THE PUBLIC BENEFIT; AUTHORIZING AND APPROVING THE EXECUTION AND DELIVER OF DOCUMENTS REQUIRED IN CONNECTION THEREWITH; AND AUTHORIZING THE TAKING OF ALL OTHER ACTIONS NECESSARY TO THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED BY THIS RESOLUTION.

WHEREAS, the Elk Grove Community Services District Public Facilities Acquisition Corporation, California ("*Lessor*"), a non-profit, public benefit corporation organized, existing and in good standing under the laws of the State of California, has full legal right, power and authority to carry out and consummate all transactions contemplated hereby; and

WHEREAS, Lessor desires to assist the Elk Grove Community Services District, California ("*Lessee*") in financing and reimbursing the costs of acquiring a certain tract of land located in the County of Sacramento, California (the "*Leased Property*") pursuant to a plan of financing in which Lessor is to acquire the Leased Property from Lessee and lease the same to Lessee pursuant to a Lease Purchase Agreement dated as of July 1, 2006 (the "*Lease*"); and

WHEREAS, Lessor desires to enter into enter into an Assignment Agreement dated July __, 2006 (the "*Assignment Agreement*") between Lessor and AIG Commercial Equipment Finance, Inc. ("*AIGCEF*") and a Mortgage, Security Agreement and Assignment of Rents dated July 1, 2006 (collectively with the Assignment Agreement and the Lease, the "*Transaction Documents*"), between Lessor and AIGCEF; and

WHEREAS, the forms of the Transaction Documents have been presented to the Board at the meeting at which this Resolution is being adopted;

NOW, THEREFORE, BE IT AND IT IS HEREBY RESOLVED by the Board of Trustees of the Elk Grove Community Services District Public Facilities Acquisition Corporation, California, as follows:

Section 1. Approval of Transaction Documents. The form, terms and provisions of the Transaction Documents are hereby approved in substantially the forms presented at this meeting (including, but not limited to, the First Base Rental Payment Schedule attached to the Lease as *Exhibit C* thereto), with such insertions, omissions and changes to the Transaction Documents as shall be approved by an authorized representative of Lessor, the execution of such documents being conclusive evidence of such approval; and the Chief Financial Officer of Lessor is hereby

authorized and directed to execute, and the Secretary of Lessor is hereby authorized and directed to attest and countersign, the Transaction Documents and any related exhibits attached thereto.

Section 2. Authorization of Transfer of Leased Property. Transfer of the Leased Property by quitclaim deed from the Lessee is hereby authorized for the sole purpose of facilitating the financing and reimbursement of the costs of acquiring the Leased Property pursuant to the Lease.

Section 3. Other Actions Authorized. The officers and employees of Lessor shall take all action necessary or reasonably required by the parties to the Transaction Documents to carry out, give effect to and consummate the transactions contemplated thereby and to take all action necessary in conformity therewith, including, without limitation, the execution and delivery and/or approval of any closing and other documents required to be delivered in connection with the Transaction Documents.

Section 4. Appointment of Authorized Lessor Representative. The Secretary of Lessor is hereby designated to act as authorized representative of Lessor for purposes of the Transaction Documents until such time as the Board of Trustees of Lessor shall designate any other or different authorized representative for purposes of the Transaction Documents.

Section 5. Severability. If any section, paragraph, clause or provision of this Resolution shall for any reason be held to be invalid or unenforceable, the invalidity or unenforceability of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Resolution.

Section 6. Repealer. All bylaws, orders and resolutions or parts thereof, inconsistent herewith, are hereby repealed to the extent only of such inconsistency. This repealer shall not be construed as reviving any bylaw, order, resolution or ordinance or part thereof.

Section 7. Effective Date. This Resolution shall be effective immediately upon its approval and adoption.

The foregoing Resolution was introduced at a Meeting of the Board of Trustees of Elk Grove Community Services District Public Facilities Acquisition Corporation, California, held on the 18th day of July, 2006, and was upon roll call carried and the Resolution adopted by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

ELK GROVE COMMUNITY SERVICES DISTRICT
PUBLIC FACILITIES ACQUISITION
CORPORATION, CALIFORNIA

By: _____
Elaine Wright, President

ATTEST:

Donna L. Hansen, Secretary

APPROVED as to form:

ATTORNEY FOR ELK GROVE COMMUNITY
SERVICES DISTRICT PUBLIC FACILITIES
ACQUISITION CORPORATION, CALIFORNIA

By: _____
Attorney at Law

The undersigned is the duly qualified and acting Secretary of the Board of Trustees of the Elk Grove Community Services District Public Facilities Acquisition Corporation, California and certifies that the foregoing is a full, true and correct copy of a Resolution duly adopted by the Board of Trustees of Elk Grove Community Services District Public Facilities Acquisition Corporation, California on the date set forth above, which Resolution is in full force and effect on the date hereof.

Secretary, Board of Trustees
Elk Grove Community Services District Public
Facilities Acquisition Corporation, California

Recording Requested by and Please Return to:

Bryan Eells
AIG Commercial Equipment Finance, Inc.
5700 Granite Parkway, Suite 850
Plano, Texas 75024

LEASE-PURCHASE AGREEMENT

between

ELK GROVE COMMUNITY SERVICES DISTRICT
PUBLIC FACILITIES ACQUISITION CORPORATION,
as Lessor,

and

ELK GROVE COMMUNITY SERVICES DISTRICT, CALIFORNIA,
as Lessee

Dated as of July 1, 2006

THIS TRANSACTION IS EXEMPT FROM CALIFORNIA DOCUMENTARY TRANSFER TAX PURSUANT TO SECTION 11929 OF THE CALIFORNIA REVENUE AND TAXATION CODE. THIS DOCUMENT IS EXEMPT FROM RECORDING FEES PURSUANT TO SECTION 27383 OF THE CALIFORNIA GOVERNMENT CODE.

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LEASE-PURCHASE AGREEMENT

THIS LEASE-PURCHASE AGREEMENT, made and entered into as of July 1, 2006 (the "*Lease*"), by and between ELK GROVE COMMUNITY SERVICES DISTRICT, CALIFORNIA, a community services district organized and operating under and pursuant to the laws of the State of California and whose mailing address is 8820 Elk Grove Boulevard, Suite 1, Elk Grove, California 95624 ("*Lessee*"), and ELK GROVE COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES ACQUISITION CORPORATION, a California nonprofit public benefit corporation whose mailing address is 8820 Elk Grove Boulevard, Suite 1, Elk Grove, California 95624 ("*Lessor*");

WITNESSETH:

WHEREAS, Lessee desires to acquire and improve an approximately 47-acre tract of land located in the County of Sacramento, State of California, described more particularly in *Exhibit A* attached hereto and made a part hereof by this reference (the "*Leased Property*"), for public purposes including (without limitation) operating a public golf course and a fleet maintenance facility for the benefit of Lessee and its inhabitants; and

WHEREAS, the Board of Directors of Lessee has found and determined that the amount of revenue available to Lessee is inadequate to acquire and improve the Leased Property and desires to enter into this Lease for the purpose of financing such acquisition and improvement; and

WHEREAS, Lessee is authorized under applicable California law, including Sections 61125 and 61060(d) of the California Government Code and other provisions of California law, to enter into the transactions contemplated by this Lease; and

WHEREAS, in exchange for Lessor paying or causing to be paid an amount equal to \$5,200,000 to be used to finance the costs of acquiring and improving the Leased Property, Lessee will enter into this Lease and pay to Lessor or its assigns (including the Lease Investor) Base Rentals during the term of this Lease as provided herein;

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto hereby formally covenant, agree and bind themselves as follows:

ARTICLE I DEFINITIONS

Section 1.1. Definitions. The following terms as used in this Lease shall have the respective meanings provided below, unless the context clearly requires otherwise.

"*Additional Rentals*" means the amount or amounts payable by Lessee pursuant to Section 3.1(c) hereof.

"Assignment" means that certain Absolute Assignment Agreement dated the Closing Date, from Lessor (as assignor) to the Lease Investor (as assignee) with respect to the assignment of the Lease Rights.

"Base Rental Payment Commencement Date" means the date on which the Leased Property is substantially available for Lessee's beneficial use and occupancy or the Closing Date, whichever is later, which is the date Lessee becomes obligated to commence payment of Base Rentals pursuant to Section 3.1(a) hereof.

"Base Rental Payment Date" means the dates set forth on each Base Rental Payment Schedule.

"Base Rental Payment Schedule" means, as of any date of determination, the Base Rental Payment Schedule then in effect in accordance with Section 3.1(b) hereof. The First Base Rental Payment Schedule is attached as *Exhibit C* to this Lease.

"Base Rentals" means the amount or amounts (comprising a principal component and an interest component) payable by Lessee pursuant to Section 3.1(a) hereof in consideration of the right to the use and enjoyment of the Leased Property during the term of this Lease, on the dates and in the amounts set forth on the Base Rental Payment Schedule.

"Business Day" means any day except Saturday, Sunday or any day on which banks located in Dallas, Texas and Sacramento, California are required or are authorized by law to remain closed.

"Closing Date" means July __, 2006, which is the date on which Lessee executes and delivers this Lease to Lessor in exchange for the advance of funds pursuant to the Assignment for the purpose of financing the costs of acquisition and improvement of the Leased Property.

"Code" means the Internal Revenue Code of 1986, as amended, and the regulations proposed or promulgated thereunder from time to time.

"Determination of Taxability" means the occurrence of any of the events described in Section 3.1(d) hereof.

"Event of Default" means any of the events described in Section 9.1 hereof.

"Final Base Rental Payment Date" means July __, 2026.

"Fiscal Year" means the twelve-month period used from time to time by Lessee for its financial accounting and budgeting purposes, such period currently extending from July 1 to the next succeeding June 30.

"Lease" means this Lease-Purchase Agreement, dated as of July 1, 2006, between Lessor (as lessor) and Lessee (as lessee), as amended and supplemented in accordance with the terms hereof.

“Lease Investor” means initially AIG Commercial Equipment Finance, Inc., Plano, Texas, as assignee of the Lease Rights as provided in the Assignment and any other permitted assignee as provided in Section 10.3 hereof.

“Lease Rights” means all of Lessor’s rights and interests under this Lease, including (without limitation) the right to receive Base Rentals and Lessor’s rights as lessor with respect to the Leased Property created hereunder; *subject, however*, to the reservation in Lessor of bare legal title in and to the Leased Property during the term of this Lease, subject to the Mortgage.

“Mortgage” means that certain Mortgage, Security Agreement and Assignment of Rents dated as of July 1, 2006, from Lessor (as mortgagor) to the Lease Investor (as mortgagee), with respect to a first mortgage lien on the Leased Property subject to Permitted Encumbrances.

“Permitted Encumbrances” means as of any particular time:

- (a) the lien of taxes and assessments that are not delinquent, or that are being contested in good faith, provided that Lessee shall have set aside reserves with respect thereto that, in the opinion of Lessor, are adequate;
- (b) this Lease and the Mortgage;
- (c) minor defects and irregularities in title to the Leased Property that separately or in the aggregate do not materially adversely affect the value or operation of the Leased Property for the purposes for which it is or may reasonably be expected to be used;
- (d) easements, exceptions or reservations for the purpose of ingress and egress, parking, pipelines, telephone lines, telegraph lines, power lines and substations, roads, streets, alleys, highways, railroad purposes, drainage and sewerage purposes, dikes, canals, laterals, ditches, the removal of oil, gas, coal or other minerals, and other like purposes, or for the joint or common use of real property, facilities and equipment, that separately or in the aggregate do not materially interfere with or impair the operation of the Leased Property for the purposes for which it is or may reasonably be expected to be used;
- (e) rights reserved to or vested in any municipality or governmental or other public authority to control or regulate or use in any manner any portion of the Leased Property that do not materially impair the operation of the Leased Property for the purposes for which it is or may reasonably be expected to be used;
- (f) present or future valid zoning laws and ordinances;
- (g) statutory liens arising in the ordinary course of business that are not delinquent or are being contested in good faith; and

(h) those liens or encumbrances existing as of the Closing Date and identified as Exceptions to Coverage in that certain Preliminary Title Report effective November 15, 2005 issued by the Title Company, Title No. 05-7101919, a copy of which Exceptions to Coverage are attached hereto as *Exhibit B*.

“*Person*” means an individual, corporation, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“*Prepayment Date*” is defined in Section 3.2(b) hereof.

“*Private Business Use*” means any use of the Leased Property by any Person other than a state or local government unit, including as a result of (a) ownership, (b) actual or beneficial use pursuant to a lease or a management, service, incentive payment, research or output contract or (c) any other similar arrangement, agreement or understanding, whether written or oral. Private Business Use includes any formal or informal arrangement with any person other than a state or local governmental unit that conveys special legal entitlements to any portion of the Leased Property that is available for use by the general public or that conveys to any person other than a state or local governmental unit any special economic benefit with respect to any portion of the Leased Property that is not available for use by the general public.

“*Purchase Option Price*” means the price determined pursuant to Section 3.2 hereof at which Lessee may purchase from Lessor all of Lessor’s interests hereunder prior to the scheduled payment of all Base Rentals to be paid hereunder.

“*Rentals*” means the Additional Rentals and the Base Rentals, collectively.

“*State*” means the State of California.

“*Taxable Rate*” means the taxable equivalent rate that produces an interest portion of each Base Rental payment on each Base Rental Payment Date from and after the occurrence of a Determination of Taxability that is sufficient to maintain the Lease Investor’s after-tax yield(s) and after-tax cash flows that are scheduled to be paid under this Lease, including adjustments to the interest rate used to calculate the interest portion of Base Rentals as provided in Section 3.1(b)(iv) hereof.

“*Title Company*” means Fidelity National Title Company, whose mailing address is 8830 Elk Grove Boulevard, Suite 100, Elk Grove, California 95624.

ARTICLE II

DEMISE

Section 2.1. Demise of the Leased Property; Lease Term. (a) Lessor does hereby rent, lease, sell and demise to Lessee, and Lessee does hereby take, acquire, purchase and lease from Lessor, the Leased Property, subject to Permitted Encumbrances, on the terms and conditions

and for the purposes herein set forth, together with all easements, rights and appurtenances in connection therewith or thereto belonging, to have and to hold for the term of this Lease.

(b) The term of this Lease shall commence as of the Closing Date and shall expire upon the first to occur of (i) payment of all Base Rentals, (ii) payment of the Purchase Option Price in full pursuant to Section 3.2 hereof or (iii) an Event of Default and a termination of Lessee's rights under this Lease as provided in Section 9.2 hereof.

Section 2.2. Modifications to Leased Property. (a) So long as no Event of Default has occurred and is then continuing, Lessor and Lessee may make, from time to time, with the prior written consent of the Lease Investor which shall not be withheld unreasonably, such modifications, alterations, amendments or additions to, or deletions from, the Leased Property as Lessor and Lessee mutually agree to be necessary and desirable to facilitate the use and development by Lessee of the Leased Property; *provided, however*, that the portion of the Leased Property remaining subject to this Lease after any such modification, alteration, amendment or addition to, or deletion from, the Leased Property shall (i) continue to be useful to serve the public purposes for which Lessee exists and operates, (ii) have such access to public streets, easements and facilities as may be necessary or advisable, in Lessee's judgment, for the development and operation of the Leased Property for its intended purposes and (iii) not be in violation of any law, rule, regulation, ordinance, covenant or restriction relating thereto. Lessor and Lessee hereby further covenant not to agree to any modification, alteration, amendment or addition to or deletion from the Leased Property that would reduce the fair rental value of the Leased Property remaining subject to this Lease (such value to be determined in each instance with reference to the value to Lessee based upon its use of the Leased Property and not with reference to such value as may be applicable for a different use or by a different user of the Leased Property) below the Rentals payable under this Lease relating to the Leased Property or adversely affect the excludability from gross income for federal income tax purposes of the interest component of Base Rentals payable under this Lease or otherwise adversely affect the purposes for which Lessor and Lessee have entered into this Lease. Upon such modification, alteration, amendment or addition to or deletion from the Leased Property, Lessor and Lessee shall execute and cause to be recorded an amendment to this Lease and a release or partial release of the Mortgage reflecting the release of such portion of the Leased Property from the terms hereof.

(b) The release of any portion of the Leased Property or any interests therein as provided in this Section 2.2 or in Section 2.3 shall not entitle Lessee to any postponement, abatement or diminution of the Base Rentals or any other payments required to be paid under this Lease.

Section 2.3. Easements and Other Interests in Leased Property. With the prior written consent of the Lease Investor (which shall not be withheld unreasonably) and if no Event of Default has occurred and is then continuing, Lessor and Lessee may at any time or times grant easements, licenses, rights-of-way (including the dedication of public highways) and other rights or privileges in the nature of easements with respect to the Leased Property, or Lessor and Lessee may release existing easements, licenses, rights-of-way and other rights or privileges with or without consideration, and Lessee agrees that it shall execute and deliver any such instrument

necessary or appropriate to confirm and grant or release any such easement, license, right-of-way or other right or privilege upon receipt of: (a) a copy of the instrument of grant or release; (b) a written application signed by an authorized representative of Lessor requesting such instrument; and (c) a certificate executed by an authorized representative of Lessee stating that such grant or release (i) is not detrimental to the proper conduct of the operations conducted on the Leased Property, (ii) will not impair the effective use or interfere with the operation of the Leased Property and (iii) will not materially weaken, diminish or impair the security intended to be given by or under the Mortgage.

ARTICLE III RENTALS PAYABLE; PREPAYMENT

Section 3.1. Rentals Payable. Lessee shall pay the Base Rentals and the Additional Rentals (but shall not be entitled to prepay or cause to be prepaid any such Base Rentals or Additional Rentals, except as otherwise expressly provided in Section 3.2 hereof) in the amounts, at the times and in the manner set forth herein, said amounts constituting in the aggregate the total of the annual Rentals payable under this Lease, as follows:

(a) *Base Rentals.* Lessee agrees, subject to the limitations of Sections 3.1(d) and 3.4 hereof, to pay to Lessor from and after the Base Rental Payment Commencement Date, in arrears, (i) Base Rentals on each _____, _____, _____ and _____, commencing on _____, 2006, (ii) Base Rentals representing a principal component payable in the respective quarterly installments and on the respective Base Rental Payment Dates as stated in the applicable Base Rental Payment Schedule under the column entitled "*Principal Portion*," and (iii) Base Rentals representing an interest component in the respective quarterly installments and on the respective Base Rental Payment Dates as stated in the applicable Base Rental Payment Schedule under the column entitled "*Interest Portion*." In the event that less than all of the Leased Property is initially made available for Lessee's beneficial use and occupancy and Lessee accepts such portion of the Leased Property for its beneficial use and occupancy pending acquisition of the remainder of the Leased Property, any Base Rentals paid by Lessee shall be prorated in a manner so as to reflect the fair rental value of the portion of the Leased Property then available for beneficial use and operation by Lessee and so used and occupied.

(b) *Adjustments to Base Rentals.* (i) The principal portion of Base Rentals commencing on _____, 2006, to and including the Base Rental due on _____, 2013, shall be as reflected on the First Base Rental Payment Schedule attached hereto as *Exhibit C*. The First Base Rental Payment Schedule attached hereto as *Exhibit C* shall be prepared by the initial Lease Investor so as to show the original principal balance being amortized with interest at the rate that is effective on the Closing Date, on a level basis to and including the Final Base Rental Payment Date, subject to rounding upwards to the nearest cent, with any unequal payment resulting from rounding being the Base Rental due on the Final Base Rental Payment Date.

(ii) The principal portion of Base Rentals commencing on _____, 2013, to and including the Base Rental due on _____, 2020, shall be as reflected on a new base rental payment schedule (the "*Second Base Rental Payment Schedule*") that shall be delivered to Lessee and the Lease Investor and attached to their respective copies of the Lease to replace the First Base Rental Payment Schedule. The Second Base Rental Payment Schedule shall be prepared by the Lease Investor as to show the aggregate unpaid principal portion of Base Rentals determined as of _____, 2013 (assuming that all Base Rentals that are due and payable prior to that date have been paid when due and taking into account any partial prepayments made on _____, 2013 as permitted in Section 3.2(b) hereof), being amortized with interest and at the rate that is to become effective on _____, 2013, on a level basis to and including the Final Base Rental Payment Date, subject to rounding upwards to the nearest cent, with any unequal payment resulting from rounding being the Base Rental due on the Final Base Rental Payment Date.

(iii) The principal portion of Base Rentals commencing on _____, 2020, to and including the Base Rental due on the Final Base Rental Payment Date shall be as reflected on a new base rental payment schedule (the "*Third Base Rental Payment Schedule*") that shall be delivered to Lessee and the Lease Investor and attached to their respective copies of the Lease to replace the Second Base Rental Payment Schedule. The Third Base Rental Payment Schedule shall be prepared by the Lease Investor as to show the aggregate unpaid principal portion of Base Rentals determined as of _____, 2020 (assuming that all Base Rentals that are due and payable prior to that date have been paid when due and taking into account any partial prepayments made on _____, 2020 as permitted in Section 3.2(b) hereof), being amortized with interest and at the rate that is to become effective on _____, 2020, on a level basis to and including the Final Base Rental Payment Date, subject to rounding upwards to the nearest cent, with any unequal payment resulting from rounding being the Base Rental due on the Final Base Rental Payment Date.

(iv) The interest portion of Base Rentals shall be calculated on the basis of a 360-day year of 12 months of 30 days each and shall accrue from the last date interest has been paid unless no interest has been paid, in which event the interest portion of Base Rentals shall accrue from the Closing Date. The interest portion of Base Rentals shall be paid in arrears on the same dates that the principal portion of Base Rentals is scheduled to be paid. The interest portion of Base Rentals for the period from and including the Closing Date, to but not including _____, 2013, shall accrue at the rate of ____% per annum. The interest portion of Base Rentals for the period from and including _____, 2013, to but not including _____, 2020, shall accrue at a rate per annum that shall be equal to the rate sum of the then current seven year U.S. Treasury interest swap rate (Daily Frequency) as reported in the most recent Federal Reserve Statistical Release H.15 (published on or before the third Business Day prior to _____, 2013) *plus* 18 basis points, as determined by the Lease Investor. The interest portion of Base Rentals for the period from and including _____, 2020, to but not including the Final Base Rental Payment Date shall accrue at a rate per annum that shall be equal to the sum of the then current seven year U.S. Treasury interest swap rate (Daily Frequency) as reported in the

most recent Federal Reserve Statistical Release H.15 (published on or before the third Business Day prior to _____, 2020) *plus* 18 basis points, as determined by the Lease Investor. In the event that if, at the time the interest rate is to be reset, the U.S. Treasury interest swap rate (Daily Frequency) is no longer published, the Lease Investor shall select a comparable index or release for purposes of this subsection (iv) with notice to Lessee.

(c) *Additional Rentals.* In addition to the Base Rentals hereinabove set forth, and as part of the total Rentals during the term of this Lease, Lessee shall pay on a timely basis to the parties entitled thereto an amount or amounts (the "*Additional Rentals*") equivalent to the sum of the following:

(i) the reasonable fees and out-of-pocket expenses of the original Lessor (not including the Lease Investor or any other successor-in-interest to the original Lessor hereunder) directly relating to the Leased Property or this Lease not otherwise required to be paid by Lessee under the terms of this Lease, including, but not limited to, reasonable costs of legal, accounting and auditing services that are approved in advance by Lessee;

(ii) the costs of maintenance, operation and repair with respect to the Leased Property and utility charges as required under Section 7.1 and Section 7.2 hereof and any costs to repair, rebuild or replace the Leased Property as required in Section 7.4 hereof;

(iii) the costs of casualty, public liability, property damage and workers' compensation insurance and the costs related to any self-insurance carried or required to be carried as provided in Section 7.3 hereof;

(iv) the costs of taxes and governmental charges and assessments as required under Section 7.2 hereof;

(v) an amount equal to any franchise, succession, capital levy or transfer tax, or any income, excess profits or revenue tax, or any other tax, assessment, charge or levy (however denominated), if any shall ever become due, levied, assessed or imposed by the State or any political subdivision thereof upon the Base Rentals payable hereunder or the Purchase Option Price (if paid) or upon the Leased Property or any portion thereof;

(vi) any amount of interest required to be paid on any of the foregoing items as a result of Lessee's failure to pay any such items when due, as required by Section 3.1(g) hereof and any amount that Lessee is required to pay with respect to the occurrence of a Determination of Taxability as provided in subsection (d) of this Section 3.1; and

(vii) any additional payment required to be made pursuant to Section 6.4 of this Lease to provide for timely payment to the United States of all amounts required to be rebated pursuant to Section 148(f) of the Code.

(d) *Increase in Base Rentals upon Determination of Taxability.* If, as a result of Lessee's act or failure to act in accordance with its covenants contained in Section 6.4 hereof (but not as a result of a change in federal tax law), the Lease Investor either (i) receives notice, in any form, from the Internal Revenue Service, or (ii) reasonably determines, based on an opinion of independent tax counsel selected by the Lease Investor and approved by Lessee, which approval Lessee shall not unreasonably withhold, that the Lease Investor may not exclude the interest component of any Base Rental from federal gross income, then Lessee shall pay to the Lease Investor, within thirty (30) days after the Lease Investor notifies Lessee of such determination, the amount which, with respect to Base Rentals previously paid and taking into account all penalties, fines, interest and additions to tax (including all federal, state and local taxes imposed on the interest component of all Base Rentals due through the date of such event) that are imposed on the Lease Investor as a result of the loss of the exclusion, will restore the Lease Investor the same after-tax yield on the transaction evidenced by this Lease (assuming tax at the highest marginal corporate tax rate) that it would have realized had the exclusion not been lost. Additionally, Lessee agrees that upon the occurrence of such an event, it shall pay additional rent to the Lease Investor on each succeeding Base Rental Payment Date based on interest calculated at the Taxable Rate.

In the event that a Determination of Taxability occurs, the Lease Investor shall determine the Taxable Rate to be in effect under the Lease from and after such Determination of Taxability (including adjustments to the Taxable Rate as provided below) and shall provide written notice to Lessee stating the Taxable Rate (including each adjustment to the Taxable Rate) and identifying in reasonable detail the basis for the calculation of the Taxable Rate (including each adjustment to the Taxable Rate), which calculation shall be conclusive (absent manifest error). In the event that the Determination of Taxability occurs prior to _____, 2013, the Lease Investor shall determine the Taxable Rate as of, and to be effective from, _____, 2013 to but not including _____, 2020. In the event that the Determination of Taxability occurs on or after _____, 2013, but prior to _____, 2020, the Lease Investor shall determine the Taxable Rate as of, and to be effective from, _____, 2020 to but not including the Final Base Rental Payment Date.

(e) *Nature of Obligation.* Lessee's obligation to pay Base Rentals and to pay any Additional Rentals payable under this Lease constitutes a current obligation payable exclusively from funds legally available for such purpose and shall not be construed to be an indebtedness within the meaning of any applicable constitutional or statutory limitation or requirement. Lessee has not pledged its taxing power to pay any Base Rentals or any Additional Rentals under this Lease.

(f) *Place of Payment.* The Base Rentals shall be paid to the Lease Investor at the address provided in Section 10.1 hereof or such other address as the Lease Investor or its assignee, as the case may be, may provide to Lessee pursuant to Section 10.1 hereof.

(g) *Late Payments.* Each Base Rental payment and each Additional Rental payment that is not paid when due shall bear interest at the lesser of the rate of twelve percent (12%) per annum or the maximum rate permitted by law from the date on which the Base Rental payment or Additional Rental payment, as the case may be, becomes due until the same is paid.

(h) *Fair Rental Value.* Such payments of Base Rentals and Additional Rentals for each Fiscal Year during the term of this Lease shall constitute the total rental for said Fiscal Year and shall be paid by Lessee in each Fiscal Year for and in consideration of the right of use and occupancy of the Leased Property during each such period for which said rental is to be paid. The parties hereto have agreed and determined that such total rental payable for each Fiscal Year represents no more than the fair rental value of the Leased Property for each such Fiscal Year. In making such determination, consideration has been given to costs of acquisition and financing of the Leased Property, other obligations of the parties under this Lease, the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to Lessee and the general public.

Section 3.2. Purchase Option. (a) The principal component of Base Rentals may not be prepaid, in whole or in part, at the option of Lessee: (i) prior to _____, 2009; (ii) during the period from _____, 2013 to _____, 2016; or (iii) during the period from _____, 2020 to _____, 2023. For all other periods during the term of this Lease, Base Rentals may only be prepaid in whole, but not in part, at the option of Lessee, in accordance with the further provisions of this Section 3.2.

(b) During the periods from _____, 2009 to _____, 2010, _____, 2016 to _____, 2017, and _____, 2023 to _____, 2024, the principal component of Base Rentals that are payable during the respective periods may be prepaid in whole, but not in part, at the option of Lessee, on any Base Rental Payment Date during the respective periods for an amount equal to 102% of the aggregate unpaid principal components of Base Rentals as of the date of prepayment *plus* any accrued but unpaid interest to such date of prepayment. During the periods from _____, 2010 to _____, 2013, _____, 2017 to _____, 2020 and _____, 2024 to _____, 2026, the principal component of Base Rentals that are payable during the respective periods may be prepaid in whole, but not in part, at the option of Lessee, on any Base Rental Payment Date during the respective periods for an amount equal to 101% of the aggregate unpaid principal components of Base Rentals as of the date of prepayment *plus* any accrued but unpaid interest to such date of prepayment. Notwithstanding the foregoing or Section 3.2(a), on either or both of the interest rate reset dates as provided in subsection (b) of Section 3.1 (*i.e.*, _____, 2013 and _____, 2020) all or any portion of the principal components of Base Rentals may be prepaid at a price equal to 100% of the principal portion so prepaid, without premium, provided that Lessee has given written notice of the amount to be prepaid on such date to the Lease Investor at least 30 days prior to the prepayment date. Any partial prepayment made

hereunder shall be in a principal amount of not less than \$100,000. Any of the foregoing dates on which prepayment occurs is herein referred to as the "*Prepayment Date*," and the applicable prepayment price is herein referred to as the "*Purchase Option Price*." The aggregate unpaid principal component of Base Rentals as of each Base Rental Payment Date (after payment of the Base Rentals due on and prior to such date) is set forth under the column titled "*Purchase Option Price*" on the applicable Base Rental Payment Schedule.

(c) To exercise the option granted under subsection (b) of this Section 3.2, Lessee shall give the Lease Investor a written notice exercising such option and designating the proposed Prepayment Date on which such purchase is to be effective and the applicable Purchase Option Price, which notice shall be delivered to the Lease Investor at least 30 days in advance of the proposed Prepayment Date. The purchase option herein granted may be exercised by Lessee whether or not one or more Events of Default have occurred and are then continuing at the time of such exercise; *provided, however*, that the purchase of Lessor's interests hereunder upon the exercise of such option during the continuance of an Event of Default shall not limit, reduce or otherwise affect liabilities or obligations that Lessee has incurred as a result of such Event of Default.

(d) Lessee shall be deemed to have exercised the option granted in subsection (b) of this Section 3.2 if Lessee exercises the option provided in Section 7.4(b) hereof to pay the Purchase Option Price or a portion thereof (relating to events of damage, destruction and condemnation). Any such prepayment of the Purchase Option Price shall be subject to the terms and conditions and at the Purchase Option Price as provided in subsection (b) of this Section 3.2; *provided, however*, that any such prepayment pursuant to Section 7.4(b) during any of the periods identified in Section 3.2(a) shall include a prepayment premium equal to 2% of the aggregate principal component of Base Rentals to be prepaid.

Section 3.3. No Offset; Unconditional Obligation. So long as Lessee has the right to beneficial use and enjoyment of the Leased Property, the obligations of Lessee to pay Base Rentals hereunder, and to perform and observe the covenants and agreements contained herein, shall be absolute and unconditional under any and all circumstances subject to the terms and conditions of this Lease and without notice or demand by Lessor, notwithstanding any dispute between or among Lessee and Lessor or any other person. Lessee shall not assert any right of set-off, counterclaim or abatement against its obligation to make payments under this Lease except as expressly provided in Section 3.4 hereof.

Section 3.4. Loss of Use or Occupancy. If there is substantial interference with or loss of Lessee's beneficial use or occupancy of the Leased Property, Base Rentals due shall be abated in the same proportion that the portion of the Leased Property is unavailable for Lessee's beneficial use or occupancy bears to the entire Leased Property. Lessee hereby waives the benefits of California Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all right to terminate this Lease by virtue of any such interference, and this Lease shall continue in full force and effect. Lessee shall notify the Lease Investor in writing of any threat to its use or occupancy of the Leased Property within 15 days after it learns of such threat. The obligation to pay full Base Rentals with respect to the Leased Property shall recommence as of the date Lessee has regained beneficial use and occupancy of the Leased Property, and the provisions of this Lease,

including, but not limited to, dates on which Base Rentals are due, shall be extended for a period equal to the period the obligation to make Base Rental payments was abated.

ARTICLE IV

FINANCING ACQUISITION AND IMPROVEMENT OF THE LEASED PROPERTY

Section 4.1. Assignment and Mortgage; Application of Proceeds. (a) To finance the costs required to acquire and improve the Leased Property for purposes of this Lease, Lessor shall execute and deliver the Assignment and the Mortgage to the initial Lease Investor on the Closing Date in exchange for the purchase price provided in the Assignment. Lessee hereby consents to Lessor's assignment of this Lease and the other Lease Rights to the initial Lease Investor as provided herein and in the Assignment.

(b) Lessor shall apply the purchase price received pursuant to the Assignment to its acquisition of the Leased Property solely for purposes of this Lease, including by reimbursement to Lessee for its purchase of the Leased Property prior to the Closing Date so long as such reimbursement does not adversely affect the exclusion of the interest component of Base Rentals from gross income for federal income tax purposes. Notwithstanding the foregoing, Lessor shall not enter into the Assignment or the Mortgage or apply the proceeds of the purchase price under the Assignment unless and until Lessee has provided or caused to be provided to Lessor and the initial Lease Investor each of the following agreements, documents and instruments in form and substance satisfactory to Lessor and the initial Lease Investor:

(i) a title insurance policy in the amount of \$5,200,000 insuring title (subject to no liens or encumbrances other than Permitted Encumbrances) to the Leased Property in Lessor and the priority of the lien under the Mortgage, issued by the Title Company;

(ii) evidence satisfactory to the initial Lease Investor that Lessee is in compliance with the requirements as to insurance set forth in Section 7.3 hereof;

(iii) evidence satisfactory to the initial Lease Investor that Lessee's intended use of the Leased Property for a public golf course and a fleet maintenance facility is in full compliance with all applicable zoning requirements;

(iv) a boundary survey for the Leased Property;

(v) an opinion of counsel to Lessee regarding (among other things) the enforceability with respect to Lessee of this Lease and other documents executed in connection therewith by Lessee;

(vi) an opinion of counsel to Lessor regarding (among other things) the enforceability with respect to Lessor of this Lease, the Assignment, the Mortgage and other documents executed in connection therewith by Lessor;

(vii) to the extent that Lessor is to acquire the Leased Property by reimbursement to Lessee of amounts previously expended for the acquisition of the

Leased Property, a resolution adopted by the Board of Directors of Lessee, certified by the Secretary of Lessee, evidencing Lessee's intent to be reimbursed for such expenditures from the proceeds of a tax-exempt borrowing;

(viii) to the extent that Lessee has previously acquired the Leased Property in anticipation of the financing provided by this Lease, a quitclaim deed or other instrument of transfer by which Lessee conveys the Leased Property to Lessor for purposes of this Lease;

(ix) a Phase I environmental site assessment with respect to the Leased Property prepared by an environmental consulting or engineering firm that is acceptable to the initial Lease Investor and a Phase II environmental site assessment and any related environmental reports, actions and indemnities as the initial Lease Investor determines to be necessary or advisable;

(x) a certified copy of the articles of incorporation, by-laws and organizational proceedings for Lessor as the initial Lease Investor determines to be necessary or advisable;

(xi) an incumbency certificate for Lessee's officials who execute this Lease and certified copies of resolutions of the Board of Directors of Lessee authorizing the execution and delivery of this Lease for and on behalf of Lessee;

(xii) an incumbency certificate for Lessor's officials who execute this Lease, the Assignment and the Mortgage and certified copies of resolutions of the Board of Trustees of Lessor authorizing the execution and delivery of the foregoing agreements for and on behalf of Lessor;

(xiii) evidence of filing of reports with the California Debt and Investment Advisory Commission to the extent required under applicable State law; and

(xiv) such other documents and information related to the Leased Property and Lessee as may be reasonably required by the initial Lease Investor.

Section 4.2. Acquisition and Improvement of the Leased Property. Lessor shall cause the acquisition and improvement of the Leased Property to be undertaken and completed for purposes of this Lease to the extent and only to the extent that Lessee (as Lessor's agent as provided in this Section 4.2) discharges its responsibilities under this Section 4.2. Lessor hereby designates Lessee as its agent for the purpose of undertaking the acquisition and improvement of the Leased Property for purposes of this Lease. Lessee hereby accepts such appointment as agent and agrees to undertake and pursue the acquisition and improvement of the Leased Property for purposes of this Lease.

Section 4.3. Vesting of Title. (a) Title to all real property or interests therein that is purchased or financed with the proceeds of sale of the Lease Rights to the initial Lease Investor

pursuant to the Assignment shall be held in the name of Lessor, subject to this Lease and the Mortgage.

(b) Lessor's interest in the Leased Property shall be transferred to Lessee and title thereto shall thereupon vest in Lessee (i) on the Purchase Option Date on which Lessee prepays Base Rentals in full pursuant to Section 3.2(b) hereof; (ii) on the Final Base Rental Payment Date immediately following payment of all Rentals under this Lease; or (iii) when the lien of the Mortgage shall have been released in accordance with the terms thereof other than by foreclosure of such lien.

Section 4.4. Subordination and Attornment. (a) This Lease and Lessee's interest in the Leased Property and its interest as lessee hereunder shall at all times be subject and subordinate to the lien of the Mortgage and to all the terms, conditions and provisions thereof, whether now existing or hereafter created and without the need for any further act or agreement by Lessee; *provided, however*, that so long as an Event of Default has not occurred and is then continuing this Lease shall remain in full force and effect notwithstanding such subordination or Lessor's default in connection with the said lien, and Lessee shall not be disturbed by Lessor in its possession, use and enjoyment of the Leased Property during the term of the Lease or in the enjoyment of its rights hereunder. Lessee shall not subordinate its interests hereunder or in the Leased Property to any other lien or encumbrance without the prior written consent of the Lease Investor. Any such unauthorized subordination by Lessee shall be void and of no force or effect whatsoever.

(b) In the event of any sale, assignment or transfer of Lessor's interest under this Lease or in the Leased Property, Lessee shall attorn to Lessor's successor and shall recognize such successor as Lessor under this Lease, said attornment to be effective and self-operative without the execution of any other instruments on the part of either party hereto immediately upon such successor succeeding to the interest of Lessor hereunder, and this Lease shall continue in accordance with its terms between Lessee, as lessee, and such successor, as Lessor.

ARTICLE V REPRESENTATIONS AND WARRANTIES

Section 5.1. Representations, Covenants and Warranties of Lessor. Lessor represents, covenants and warrants to Lessee and the initial Lease Investor that as of the date of the execution and delivery of this Lease:

(a) Lessor is a nonprofit public benefit corporation organized, existing and in good standing under the laws of the State, has full legal right, power and authority to enter into this Lease, the Assignment and the Mortgage and to carry out and consummate all transactions contemplated hereby, and by proper corporate action has duly authorized the execution and delivery of this Lease, the Assignment and the Mortgage.

(b) Lessor is not subject to any legal or contractual limitation or provision of any nature whatsoever that in any way limits, restricts or prevents Lessor from entering into this Lease, the Assignment or the Mortgage or performing any of its obligations

hereunder or thereunder, except to the extent that such performance may be limited by bankruptcy, insolvency, reorganization or other laws affecting creditors' rights generally.

(c) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, known to be pending or threatened against or affecting Lessor, nor to the best knowledge of Lessor is there any basis therefor, wherein an unfavorable decision, ruling or finding would materially adversely affect the transactions contemplated by this Lease or any other agreement or instrument to which Lessor is a party and that is used or contemplated for use in the consummation of the transactions contemplated by this Lease. All authorizations, consents and approvals of governmental officers, bodies or agencies required in connection with the execution and delivery by Lessor of this Lease or any such other agreement or instrument or in connection with the carrying out by Lessor of its obligations under this Lease or thereunder have been obtained.

(d) Lessor holds or will hold on the Closing Date marketable fee title in the Leased Property, which Lessor has mortgaged or has agreed to mortgage to the initial Lease Investor pursuant to the Mortgage as additional security for the payment of Rentals under this Lease. Lessor and Lessee understand and agree that Lessor shall have all right, title and interest in and to the Leased Property, subject to the Mortgage and Lessee's leasehold interest under this Lease and its option to purchase the Leased Property hereunder.

(e) Lessor will not pledge the Base Rentals, the Purchase Option Price or any of its other rights hereunder and will not mortgage or encumber the Leased Property except as provided herein and in the Mortgage. All property and moneys received by Lessor from Lessee will, so long as no Event of Default has occurred and is then continuing, be applied for the benefit of Lessee, and all property and moneys received by Lessor hereunder and under the Mortgage for the Lease Investor will be applied for the benefit of the Lease Investor.

Section 5.2. Representations, Covenants and Warranties of Lessee. Lessee represents, covenants and warrants to Lessor and the initial Lease Investor that as of the date of the execution and delivery of this Lease:

(a) Lessee is a community services district organized and existing under and pursuant to the laws of the State, has full legal right, power and authority to enter into this Lease and to carry out and consummate the transactions contemplated hereby. Lessee has been duly authorized to execute and deliver this Lease, and agrees that it will do or cause to be done all things necessary to preserve and keep this Lease in full force and effect.

(b) The Board of Directors of Lessee has found and determined, and hereby finds and determines, that the amount of revenue available to Lessee is inadequate to acquire and improve the Leased Property, and Lessee desires to enter into this Lease at this time for the purpose of financing the acquisition and improvement of the Leased

Property for the benefit of Lessee and its inhabitants and to carry out its governmental purposes.

(c) The execution and delivery of this Lease by Lessee, the consummation of the transactions herein contemplated and the fulfillment of or compliance with the terms and conditions hereof will not in any material respect conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any law or administrative rule or regulation applicable to Lessee, or any applicable court or administrative decree or order, or any trust agreement, mortgage, deed of trust, loan agreement, lease, contract or other agreement or instrument to which Lessee is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of Lessee.

(d) No consent or approval of any trustee, holder of any indebtedness of Lessee or any other Person, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of this Lease, the consummation of any transaction herein contemplated, or the fulfillment of or compliance with the terms and conditions hereof, except as have been obtained or made and as are in full force and effect.

(e) There is no action, suit, proceeding, inquiry or investigation, before or by any court or federal, state, municipal or other governmental authority pending, or to the best knowledge of Lessee, after due inquiry and investigation, threatened against or affecting Lessee or the assets, properties or operations of Lessee with respect to which there is a material likelihood of being determined adversely to Lessee or its interests, and which if so determined would be likely to have a material adverse effect upon the consummation of the transactions contemplated by or the fulfillment or compliance with the terms and conditions of or the validity or enforceability of this Lease or upon the financial condition, assets, properties or operations of Lessee, and Lessee is not in default (and no event has occurred and is continuing that with the giving of notice or the passage of time or both could constitute a default) with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated this Lease or the financial condition, assets, properties or operations of Lessee or its properties. Lessee enjoys the peaceful and undisturbed possession of all the premises upon which it is operating.

(f) The payment of the Rentals or any portion thereof is not directly or indirectly (i) secured by any interest in (A) property used or to be used for a private business or (B) payments in respect of such property or (ii) to be derived from payments (whether or not to Lessee) in respect of property, or business use, all within the meaning of Section 141(b) of the Code. No proceeds of this Lease are to be used (directly or indirectly) to make or finance loans to persons other than governmental units within the meaning of Section 141(c) of the Code.

(g) The term of this Lease does not exceed the reasonably expected useful life of the Leased Property.

(h) Lessee acknowledges that Lessor is acting only as a financing source with respect to the acquisition and improvement of the Leased Property.

(i) Lessee will promptly and duly execute and deliver to Lessor such further documents, instruments and assurances and take such further action as Lessor may from time to time reasonably request in order to carry out the intent and purpose of this Lease and to establish and protect the rights and remedies created or intended to be created in favor of Lessor hereunder.

(j) All requirements have been met and procedures have occurred in order to ensure the enforceability of this Lease, and Lessee has complied or will comply with such competitive bidding requirements as may be applicable to this Lease and the completion by Lessee (in its capacity as agent for Lessor) of the acquisition and improvement of the Leased Property.

(k) During the term hereof, the Leased Property will be used by Lessee only for the purpose of performing one or more essential governmental or proprietary functions of Lessee consistent with the permissible scope of Lessee's authority under State law. The use, occupancy and operation of the Leased Property is essential to the conduct of Lessee's governmental operations to provide for the public health, welfare, safety and convenience of Lessee and its inhabitants.

(l) Information supplied and statements made by Lessee in any financial statement or current budget dated or prepared prior to or contemporaneously with this Lease present such information fairly and accurately.

(m) Lessee reasonably expects that this Lease will remain outstanding for its full term.

SECTION 5.3. DISCLAIMERS OF LESSOR. LESSOR BY DELIVERY HEREOF MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE FITNESS OF THE LEASED PROPERTY FOR THE USE CONTEMPLATED BY LESSEE UNDER THIS LEASE. LESSOR LEASES THE LEASED PROPERTY AS IS AND MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE MERCHANTABILITY, THE FITNESS FOR A PARTICULAR PURPOSE, THE DESIGN OR THE CONDITION OF THE LEASED PROPERTY, OR AS TO THE QUALITY, THE CAPACITY OF THE MATERIAL OR THE WORKMANSHIP OF THE LEASED PROPERTY OR THE ABILITY OF THE LEASED PROPERTY OR ANY PORTION THEREOF TO SATISFY THE REQUIREMENTS OF ANY LAW, RULE, SET OF SPECIFICATIONS OR CONTRACT THAT MAY BE APPLICABLE THERETO. IT IS AGREED THAT ALL SUCH RISKS, AS BETWEEN LESSOR, ON THE ONE HAND, AND LESSEE ON THE OTHER HAND, ARE TO BE BORNE BY LESSEE AT ITS SOLE RISK AND EXPENSE. LESSEE AGREES TO LOOK SOLELY TO THE SELLERS AND CONTRACTORS OF THE LEASED PROPERTY FOR SUCH WARRANTIES, AND ALL WARRANTIES MADE BY THE SELLERS AND CONTRACTORS, TO THE DEGREE POSSIBLE, ARE HEREBY ASSIGNED TO LESSEE FOR THE TERM OF THIS LEASE. LESSOR MAKES NO PATENT WARRANTIES OR

REPRESENTATIONS WHATSOEVER. LESSOR SHALL NOT BE LIABLE FOR ANY CONSEQUENTIAL, INDIRECT OR SPECIAL DAMAGES WITH RESPECT TO THE LEASED PROPERTY.

ARTICLE VI PARTICULAR COVENANTS

Section 6.1. Limitation on Encumbrances. Lessee covenants and agrees that it will not create, assume or suffer to exist any mortgage, deed of trust, pledge, security interest, encumbrance, lien or charge of any kind (including the charge upon property purchased under conditional sales or other title retention agreements) upon the Leased Property; *provided, however,* that notwithstanding the foregoing provision, Lessee may create, assume or suffer to exist Permitted Encumbrances and take such actions as are permitted by Sections 2.2 and 2.3 hereof.

Section 6.2. Covenant to Budget and Appropriate. Lessee hereby covenants to take such action as is necessary under the laws applicable to Lessee to budget for and include and maintain funds sufficient and available to discharge its obligation to meet all Base Rentals and Additional Rentals due hereunder in each of its Fiscal Years during the term of this Lease.

The covenants on the part of Lessee herein contained shall be deemed to be and shall be construed to be ministerial duties imposed by law and it shall be the duty of each and every public official of Lessee to take such action and do such things as are required by law in the performance of the official duty of such officials to enable Lessee to carry out and perform the covenants and agreements in this Lease agreed to be carried out and performed by Lessee.

Section 6.3. Accounting Records and Financial Statements. Lessee covenants and agrees to furnish to Lessor within one hundred twenty (120) days after the end of each Fiscal Year, copies of the complete financial statements for such Fiscal Year, together with the report and opinion of a certified public accountant stating that (i) the financial statements have been prepared in accordance with generally accepted accounting principles and (ii) such accountant's examination of the financial statements was performed in accordance with generally accepted auditing standards.

Section 6.4. Tax Covenant. (a) Lessee further covenants and certifies to and for the benefit of the Lease Investor that:

(i) it will at all times comply with the rebate requirements contained in Section 148(f) of the Code, including, without limitation, the entering into of any necessary rebate calculation agreement to provide for the calculations of amounts required to be rebated to the United States, the keeping of records necessary to enable such calculations to be made and the timely payment to the United States of all amounts, including any applicable penalties and interest, required to be rebated;

(ii) no use will be made of the proceeds of sale of the Lease Rights, or any funds or accounts of Lessee that may be deemed to be proceeds of sale of the Lease Rights, pursuant to Section 148 of the Code and applicable regulations (proposed or

promulgated), which use, if it had been reasonably expected on the date of execution and delivery of the Lease, would have caused the Lease to be classified as an “arbitrage bond” within the meaning of Section 148 of the Code;

(iii) it will not permit both of the following to occur:

(A) the use of more than ten percent of the Leased Property, directly or indirectly, in a Private Business Use; and (B) the payment of more than ten percent of the principal and interest components of Base Rentals to be, directly or indirectly (I) secured by any interest in (y) property used or to be used in any Private Business Use or (z) payments in respect of such property or (II) on a present value basis, derived from payments (whether or not to the Lessee or a member of the same controlled group as the Lessee) in respect of property, or borrowed money, used or to be used in any Private Business Use;

(iv) no bonds, leases or other evidences of indebtedness of Lessee have been or will be issued, executed, sold or delivered within a period beginning fifteen (15) days prior to the execution and delivery of this Lease and ending fifteen (15) days following the delivery of this Lease, other than this Lease; and

(v) it will not take any action that would cause the interest component of Base Rentals to be included in or to become ineligible for the exclusion from gross income of the Lease Investor for federal income tax purposes, nor will it omit to take or cause to be taken in a timely manner any action, which omission would cause the interest component of Base Rentals to be included in or to become ineligible for the exclusion from gross income of the Lease Investor for federal income tax purposes.

Pursuant to these covenants, Lessee obligates itself to comply throughout the term of this Lease with the requirements of Section 103 of the Code and the regulations proposed or promulgated thereunder.

(b) Lessee agrees to complete and file in a timely manner an information reporting return (Form 8038-G) with respect to this Lease as required by the Code.

(c) It is Lessor’s and Lessee’s intention that this Lease not constitute a “true” lease for federal income tax purposes and, therefore, it is Lessor’s and Lessee’s intention that Lessee be considered the owner of the Leased Property for federal income tax purposes.

Section 6.5. Covenant of Quiet Enjoyment. The parties hereto mutually covenant and agree that Lessee, by keeping and performing the covenants and agreements herein contained, shall at all times during the term hereof, peaceably and quietly, have, hold and enjoy the Leased Property, subject to all Permitted Encumbrances.

Section 6.6. Environmental Conditions. (a) Lessee hereby covenants and agrees to carry on its affairs and operations at the Leased Property in a manner that complies in all respects, and

will remain in compliance, with all applicable federal, State, regional, county or local laws, statutes, rules, regulations or ordinances concerning public health, safety or the environment.

(b) Lessor shall not be obligated to monitor compliance of the Leased Property with applicable environmental or other laws. Lessor shall not have any obligations or responsibility to foreclose or otherwise further involve itself with the Leased Property under any circumstance, including any instance where either Lessor is notified of any non-compliance of the Leased Property with applicable environmental or other laws. It is expressly understood that Lessor shall not have the right or the obligation to monitor Lessee's compliance with environmental laws. Lessee hereby further represents and warrants to Lessor that Lessee, its officers, employees or agents have neither ever caused or permitted and shall neither ever cause or permit Hazardous Substances (as defined below) to be generated, placed, housed, located or disposed of on, under or in the Leased Property, nor ever use the Leased Property as a dump site, permanent or temporary storage site or transfer station for any Hazardous Substance. Lessee further represents and warrants to Lessor that it shall not allow any actual or alleged violation with respect to the Leased Property of any federal, state or local statute, ordinance, rule, regulation or other law pertaining to Hazardous Substances.

(c) Lessee hereby represents and warrants that it has delivered to the Lease Investor on or prior to the Closing Date a full, true and correct copy of the Phase II environmental site assessment (the "*Phase II ESA*") relating to the Leased Property and acknowledges the conclusions and recommendations set forth therein. Lessee hereby covenants and agrees to proceed promptly to conduct and carry out, or cause to be conducted and carried out, the recommendations set forth in the Phase II ESA, including **[Further recommendations pending completion of environmental surveys]**.

(d) *Indemnification.* To the greatest extent permitted by law, Lessee agrees to hold harmless, indemnify and defend Lessor from and against any claim, demand, penalty, fee, lien, damage, loss, expense or liability resulting from (i) any breach of the representations and warranties made by it in this Section 6.6 or any failure, for any reason to comply with environmental laws, rules and regulations, including reasonable attorneys' fees and costs of, or in preparation for, any trial or appellate review, (ii) any actual or alleged Hazardous Substance contamination, including the clean-up of Hazardous Substances from the Leased Property or any other properties resulting from any activities on the Leased Property during Lessee's ownership, possession or control of the Leased Property which directly or indirectly result in the Leased Property or any other property being contaminated with Hazardous Substances and (iii) any failure of Lessee to perform its covenants and agreements to carry out and conduct promptly the recommendations contained in the Phase II ESA as provided in subsection (c) of this Section 6.6. This indemnity shall survive the termination hereof and shall continue to inure to the benefit of Lessor notwithstanding any assignment of its other rights hereunder, as well as any assignee of Lessor's rights hereunder; *provided, however*, that the obligations of Lessee under this Section 6.6 are specifically limited to payment from such moneys of Lessee as are available at such time from the proceeds of insurance, self-insurance and legally available funds.

(e) *Hazardous Substance.* As used herein, "*Hazardous Substance*" shall mean any hazardous, toxic or dangerous substance, waste, material or USTs that are or may become

regulated under any federal, State or local statute, ordinance, rule, regulation or other law now or hereafter in effect pertaining to environmental protection, contamination or clean-up.

ARTICLE VII

MAINTENANCE, INSURANCE AND CONDEMNATION

Section 7.1. Maintenance and Operation of the Leased Property. (a) Lessee covenants and agrees that it will operate and maintain the Leased Property in accordance with all governmental laws, ordinances, approvals, rules, regulations and requirements, including, without limitation, such zoning, environmental, sanitary, pollution and safety ordinances and laws and such rules and regulations thereunder as may be binding upon Lessee. Lessee further covenants and agrees that it will maintain and operate the Leased Property for the use of the general public and will maintain and operate the same and all engines, boilers, pumps, machinery, apparatus, fixtures, fittings and equipment of any kind in or that shall be placed in any building or structure now or hereafter at any time constituting part of the Leased Property in good repair, working order and condition, and that Lessee will from time to time make or cause to be made all needful and proper replacements, repairs, renewals and improvements so that the efficiency and value of the Leased Property shall not be impaired.

(b) Except as otherwise provided in this Lease, Lessor reserves no power or authority with respect to the operation of the Leased Property and all activities incident or related thereto, it being the specific intention of the parties hereto that, so long as no Event of Default has occurred and is continuing, Lessee shall manage, administer and govern the Leased Property on a continuing day-to-day basis.

Section 7.2. Taxes, Assessments, Other Governmental Charges and Utility Charges. Lessee covenants and agrees that it will pay and discharge all taxes, assessments, governmental charges of any kind whatsoever, water rates, meter charges and other utility charges that may be or have been assessed or that may have become liens upon the Leased Property, or the interests therein of Lessor, and will make such payments or cause such payments to be made, respectively, in due time to prevent any delinquency thereon or any forfeiture or sale of the Leased Property or any part thereof. Upon request, Lessee will furnish to Lessor receipts for all such payments, or other evidences satisfactory to Lessor; *provided, however*, that Lessee may, at its expense and in its own name and behalf or in the name and on behalf of Lessor, if the same is a necessary party thereto, sue for a refund of any such taxes, assessments and other charges previously paid as herein provided, or in good faith contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges contested to remain unpaid during the period of such contest and any appeal therefrom unless or until Lessor notifies Lessee that, or unless or until Lessee knows that, by nonpayment of any such items the title to or operation of the Leased Property or the security interest of this Lease will be materially endangered or the Leased Property, or any material part thereof, will be subject to imminent loss or forfeiture, in which case such taxes, assessments or charges shall be paid promptly.

Section 7.3. Insurance Required.

(a) *Casualty Insurance.* Lessee shall keep the Leased Property insured at its own expense against loss or damage due to fire and the risk normally included in extended coverage, malicious mischief and vandalism (including, without limitation, earthquake insurance, if obtainable, at a reasonable cost and Lessee determines in its sole discretion to purchase such insurance), for not less than the Full Insurable Value of the Leased Property. As used herein "Full Insurable Value" means (i) the full replacement value of the Leased Property determined by an insurance consultant or by an architect, contractor, appraiser or appraisal company selected by Lessee and acceptable to Lessor, or (ii) the unpaid Rentals, accrued but unpaid interest thereon and the applicable prepayment premium, whichever is greater. All insurance for loss or damage shall provide that losses, if any, shall be payable to Lessor and Lessee, as their respective interests may appear, and Lessee shall utilize its best efforts to have all checks relating to such losses delivered promptly to Lessor.

(b) *Liability Insurance.* Lessee shall carry public liability insurance, both personal injury and property damage, covering the Leased Property, in a combined single occurrence limit of One Million Dollars (\$1,000,000). Lessor shall be named as an additional insured with respect to all such liability insurance.

(c) *Worker's Compensation.* Lessee shall carry worker's compensation insurance as required by law covering all employees of Lessee, or demonstrate to the satisfaction of Lessor that adequate self-insurance is provided to satisfy worker's compensation insurance requirements under law, and will furnish to Lessor certificates evidencing such coverage pertaining to the employees of Lessee throughout the term hereof.

(d) *General Requirements.* All insurance required under this Section 7.3 shall be in form and with companies reasonably satisfactory to Lessor. Lessee shall pay the premiums therefor and deliver to Lessor certificates of insurance with respect thereto or duplicates thereof, or other evidence satisfactory to Lessor of such insurance coverage. Each insurer shall agree, by endorsement upon the policy or policies issued by it or by independent instrument furnished to Lessor, that (a) it will give Lessor thirty (30) days prior written notice of the effective date of any material alteration or cancellation of such policy; and (b) insurance as to the interest of any named additional insured or loss payee other than Lessee shall not be invalidated by any actions, inactions, breach of warranty or conditions or negligence of Lessee with respect to such policy or policies.

(e) *Self-Insurance.* With Lessor's prior written consent, Lessee may satisfy its obligations with respect to casualty and liability insurance hereunder by maintaining a funded self-insurance plan acceptable to Lessor in its sole discretion, which acceptance shall not be unreasonably denied.

(f) *Title Insurance Policy.* Lessee agrees to obtain and deliver, or cause to be obtained or delivered, to Lessor on the Closing Date a Lender's ALTA Extended Coverage Policy of Title Insurance, or an endorsement to such policy, at the time of and dated as of the date of delivery of this Lease, in an amount not less than the aggregate principal component of Base Rentals

hereunder, payable to the initial Lease Investor as the insured. Such lender's policy shall insure the lien of the Mortgage with respect to the Leased Property, subject only to Permitted Encumbrances.

Section 7.4. Disposition of Insurance and Condemnation Proceeds. (a) The proceeds of property insurance carried pursuant to Section 7.3 hereof, and the proceeds of any condemnation awards with respect to the Leased Property, shall be paid immediately upon receipt by Lessee or other named insured parties to Lessor. In the event Lessee elects to repair or replace the property damaged, destroyed or taken, it shall furnish to Lessor plans of the contemplated repair or replacement, accompanied by a certificate of an architect or other qualified expert satisfactory to Lessor estimating the reasonable cost of such repair or replacement and a certificate of Lessee stating that amounts paid to Lessor in accordance with the first sentence of this Section, together with investment income reasonably expected to be received with respect thereto and any other funds available or reasonably expected to become available therefor (and which Lessee shall agree to use for such purpose when so available), shall be sufficient to repair or replace the property damaged, destroyed or taken in accordance with said plans. In such event, after deducting therefrom the reasonable charges and expenses of Lessor in connection with the collection and disbursement of such proceeds, the condemnation or insurance proceeds shall be paid over from Lessor to Lessee for the purpose of repairing or replacing the property damaged, destroyed or taken. Any costs of completing said repairs or restoration in excess of the amounts paid over by Lessor to Lessee shall be paid by Lessee, from funds legally available for such purpose.

(b) In the event Lessee, with the consent of Lessor, shall not elect to repair or replace the property damaged, destroyed or taken, as provided in subsection (a) of this Section, or in the event and to the extent moneys paid to Lessor as a result of such taking or damage exceed the amount necessary to effect the repair or replacement, pursuant to subsection (a) of this Section, of the property damaged, destroyed or taken, Lessor shall apply all insurance or condemnation proceeds so received to prepay the Purchase Option Price or prepay in part the principal component of Base Rentals pursuant to Section 3.2 hereof.

ARTICLE VIII

EXPENSES; INDEMNIFICATION

Section 8.1. Expenses. Lessee covenants and agrees to pay and to indemnify Lessor and its assignees against all costs and charges, including any reasonable fees of attorneys, accountants, consultants and other experts, incurred in good faith or arising out of or in connection with this Lease.

Section 8.2. Indemnification. Lessee agrees, to the extent authorized by law, to indemnify and hold harmless Lessor, its respective officers, employees and agents from and against any and all losses, claims, damages, liabilities or expenses of every conceivable kind, character and nature whatsoever, including, but not limited to, losses, claims, damages, liabilities, or expenses arising out of, resulting from or in any way connected with the Leased Property or the conditions, occupancy, use, possession, conduct or management of, or work done in or about the Leased Property. Lessee further agrees, to the extent authorized by law, to pay or

to reimburse Lessor and its respective officers, employees and agents for any and all costs, reasonable attorneys' fees, liabilities or expenses incurred in connection with investigating, defending against or otherwise in connection with any such losses, claims, damages, liabilities, expenses or actions incurred in connection with the transactions contemplated by this Lease.

ARTICLE IX EVENTS OF DEFAULT; REMEDIES

Section 9.1. Events of Default Defined. Each of the following events shall constitute an "Event of Default" hereunder:

- (a) Lessee fails to pay any Base Rental when due.
- (b) Lessee fails to observe and perform any covenant, condition or agreement in this Lease on its part to be observed or performed, other than as referred to in subsection (a) of this Section, for a period of thirty (30) days after written notice to Lessee specifying such failure and requesting that it be remedied has been given to Lessee by Lessor, unless Lessor shall agree in writing to an extension of such time prior to its expiration.
- (c) Any representation or warranty made by Lessee herein or in any document, instrument or certificate furnished to Lessor shall at any time prove to have been incorrect in any material respect as of the time made.
- (d) If Lessee shall abandon the Leased Property, or any substantial part thereof, and such abandonment shall continue for a period of sixty (60) days after written notice thereof shall have been given to Lessee by Lessor.
- (e) Lessee institutes any proceedings under any bankruptcy, insolvency, reorganization or similar law or a receiver or similar officer is appointed for Lessee or any of its property.

Section 9.2. Remedies on Default. (a) Upon the occurrence and during the continuance of any Event of Default hereunder, Lessor shall have the right, at its sole option and without any further demand or notice, to take any one or any combination of the following remedial actions, except insofar as the same are prohibited by applicable law:

- (i) with or without terminating this Lease, reenter and retake possession of the Leased Property and lease or sublease the Leased Property, or assign its interest therein, for the account of Lessee, with the net amount of all proceeds received by Lessor to be applied to Lessee's obligations hereunder including, but not limited to, all payments due and to become due hereunder, holding Lessee liable for the excess (if any) of (i) the Base Rental payments and other amounts payable by Lessee hereunder (including but not limited to reasonable attorney fees, expenses and costs of repossession), over (ii) the net purchase price or rent and other amounts paid or payable Lessee or assignee, of the Leased Property pursuant to such lease or sublease, or assignment; *provided* that in no

event shall Lessee be liable in any Fiscal Year for any amount in excess of the amount payable shown in the applicable Base Rental Payment Schedule in such Fiscal Year; and *provided further* that the excess (if any) of the amounts referred to in clause (ii) over the amounts referred to in clause (i) shall be paid to Lessee;

(ii) without terminating this Lease, take whatever action at law or in equity may appear necessary or desirable, to collect each Base Rental payment as it becomes due hereunder; and

(iii) exercise any right, remedy or privilege which may be available to it under the applicable laws of the State or any other applicable law or proceed by appropriate court action to enforce performance by Lessee of the applicable covenants of this Lease or to recover for the breach thereof.

Notwithstanding anything to the contrary contained herein, the exercise of rights or remedies under this Lease is not intended, and shall not be construed to permit or authorize the acceleration of Base Rentals under any circumstance.

In addition, to the extent authorized by law, Lessee will remain liable for all covenants and indemnities under this Lease and for all legal fees and other costs and expenses, including court costs, incurred by Lessor with respect to the enforcement of any of the remedies listed above or any other remedy available to Lessor.

(b) No right or remedy herein conferred upon or reserved to Lessor is exclusive of any right or remedy herein or at law or in equity or otherwise provided or permitted, but each shall be cumulative of every other right or remedy given hereunder or now or hereafter existing at law or in equity or by statute or otherwise, and may be enforced concurrently therewith or from time to time.

(c) No waiver of or delay or omission in the exercise of any right or remedy herein provided or otherwise available to Lessor shall impair, affect or be construed as a waiver of its rights thereafter to exercise the same. Any single or partial exercise by Lessor of any right hereunder shall not preclude any other or further exercise of any right hereunder.

ARTICLE X MISCELLANEOUS

Section 10.1. Notices. All notices or communications herein required or permitted to be given shall be in writing and mailed or delivered to Lessee and Lessor at their respective addresses set forth in the first paragraph of this Lease and to the initial Lease Investor at 5700 Granite Parkway, Suite 850, Plano, Texas 75024, Attention: Bryan Eells, Vice President—Credit & Operations, and if to a subsequent assignee of the Lease Rights, to such address as the assignee may provide to Lessee and Lessor as provided hereunder. Lessee, Lessor, the initial Lease Investor or any assignee may, by notice given hereunder, designate any further or different address to which subsequent notices, certificates and other communications shall be sent.

Section 10.2. No Sale, Assignment or Other Disposition by Lessee. Except for Permitted Encumbrances and as provided in Sections 2.2, 2.3 and 6.4(a)(iii) hereof, Lessee agrees not to (a) sell, assign, transfer, lease, sublease, pledge or otherwise encumber or suffer a lien or encumbrance upon or against any interest in this Lease or the Leased Property, or (b) enter into any contract or agreement with respect to the use and operation of any of the Leased Property by any person other than Lessee, without Lessor's prior written consent in each instance (which consent shall not be unreasonably withheld); *provided, however*, that such prior written consent shall not be required if Lessee is required by operation of law (including judicial decision) to take any of the actions described in the foregoing clause (a) or (b) so long as any assignee, transferee or other person is required by operation of law to assume all duties and obligations of Lessee under this Lease, including (without limitation) the obligation to pay Rentals in accordance with the terms of this Lease. Lessee shall at all times remain liable for the performance of the covenants and conditions on its part to be performed, notwithstanding any assigning, transferring or other conveyance that may be made with or without such consent.

Section 10.3. Assignment by Lessor. (a) Lessor may, at any time and from time to time, with notice to but not consent of Lessee, assign, transfer or otherwise convey all or any part of its interest in this Lease, including Lessor's right to receive the Base Rentals or any part thereof (in which event Lessee agrees to pay all Base Rentals thereafter to the assignee designated by Lessor) and to exercise Lessor's rights and remedies under Section 9.2 hereof; *provided, however*, that, unless otherwise agreed to by Lessee, (i) Lessee shall not be required to pay Base Rentals or pay the Purchase Option Price to more than one individual or entity or send notices or otherwise deal with respect to matters arising under this Lease with or to more than one individual or entity and (ii) any such assignment, transfer or conveyance shall be made only to sophisticated investors. Any such assignment, transfer or conveyance may be to a trustee for the benefit of owners of certificates of participation or to a servicer in connection with a participation arrangement so long as the conditions provided in the next preceding sentence are satisfied.

(b) To the extent that Lessor assigns, transfers or conveys its interests in a manner that results in more than one owner of all interests in this Lease, Lessee hereby appoints Lessor and Lessor hereby agrees, to act as a registration agent to keep, or cause to be kept, a complete and accurate record of all such assignments in form necessary to comply with Section 149 of the Code.

(c) Lessee agrees, if so requested, to acknowledge an assignment, transfer or conveyance effected pursuant to subsection (a) of this Section 10.3 in writing within 15 days after request therefor, but such acknowledgment shall in no way be deemed necessary to make any such assignment, transfer or conveyance effective.

Section 10.4. Binding Effect. This Lease shall inure to the benefit of and shall be binding upon Lessee and Lessor and their respective successors and assigns.

Section 10.5. Severability. In the event any provision of this Lease shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 10.6. Lease Represents Complete Agreement; Amendments. This Lease represents the entire contract between the parties with respect to the Leased Property and the subject matter hereof. This Lease may not be effectively amended, changed, modified or altered, except in writing signed by each of the parties hereto.

Section 10.7. Net Contract. This Lease shall be deemed and construed to be a “net contract,” and Lessee shall pay absolutely net during the term of this Lease the Base Rentals and any other payments required hereunder, free of any deductions, diminution or set-off.

Section 10.8. Right of Entry for Inspection. Lessor and any assignee of the Lease Rights, are each authorized, by themselves or their agents or workers, in a reasonable manner and after giving 24 hours notice, to enter at any time upon the Leased Property for the purpose of inspecting the same, subject however to any legal or customary restrictions relating to security and safety in the operation of Lessee’s services.

Section 10.9. Article and Section Headings and References. The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Lease. All references herein to “Articles,” “Sections” or other subsections are to the corresponding Articles, Sections or subsections of this Lease; the words “herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to this Lease as a whole and not to any particular Article, Section or subsection hereof; and words of the masculine gender shall mean and include words of the feminine and neuter genders.

Section 10.10. Governing Law; Venue. This Lease shall be governed and construed in accordance with the laws of the State. Venue for any suit, action or proceeding arising out of or relating to this Lease and the transactions contemplated hereby shall lie exclusively in the State or Federal courts located in the County of Sacramento, State of California.

Section 10.11. Further Assurances and Corrective Instruments. Lessor and Lessee agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments, including deeds, bills of sale and other documents of transfer, as may reasonably be required for correcting any inadequate or incorrect description of any portion of the Leased Property or for carrying out the intention of or facilitating the performance of this Lease.

Section 10.12. Execution of Counterparts. This Lease may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 10.13. Limitation on Lessor’s Liability. Notwithstanding any language to the contrary contained herein, Lessor shall have no monetary or pecuniary obligation of any kind under this Lease.

IN WITNESS WHEREOF, ELK GROVE COMMUNITY SERVICES DISTRICT and ELK GROVE COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES ACQUISITION CORPORATION have caused this Lease-Purchase Agreement to be duly executed in their respective names and attested by their duly authorized officers, all as of the date first above written.

ELK GROVE COMMUNITY SERVICES DISTRICT,
CALIFORNIA

By
Name: _____
Title: _____

ATTEST:

Secretary

Approved as to Form and Substance on
_____, 2006:

ATTORNEY FOR ELK GROVE COMMUNITY
SERVICES DISTRICT, CALIFORNIA

Attorney at Law

ELK GROVE COMMUNITY SERVICES DISTRICT
PUBLIC FACILITIES ACQUISITION
CORPORATION

By
Name: _____
Title: _____

ATTEST:

Secretary

EXHIBIT A

LEGAL DESCRIPTION OF LEASED PROPERTY

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE CITY OF ELK GROVE, COUNTY OF SACRAMENTO, STATE OF AND IS DESCRIBED AS FOLLOWS:

PARCEL 1:

Beginning at a stake on the Westerly boundary line of the right of way of the Southern Pacific Transportation Company, formerly Central Pacific Railway Company, at a point distant South 16° 29' East 33.135 chains from the intersection of the said Westerly boundary line of the right of way of the said railroad, with the center line of the Grant Line Road, so-called and running thence along the said Westerly boundary line of said right of way of the said railroad, South 16° 29' East 58.953 chains to its intersection with the Southern boundary line of the land formerly owned by Mrs. L.M. Graham; thence along the said Southern boundary line, North 66° 58' West 18.472 chains to the center line of Stockton Boulevard, formerly Upper Stockton Road, so-called; thence along the center line of said road, 39° 35' West 12.533 chains; North 38° 33' West 24.71 chains to a point opposite to a stake set in the Easterly boundary fence of the said Stockton Boulevard, the said point being also located South 38° 33' East 30.255 chains from the intersection of the center line of the aforesaid Stockton Boulevard with the center line of the aforesaid Grant Line Road; thence North 49° 22' East 31.245 chains to the place of beginning; containing 100 acres being the same land marked "Jos. Francis McAnaw 100 Acres", on map filed October 7, 1902, in Book 4 of Maps, Map No. 33. Said land being a fractional part of the Omochumnes Rancho as the same was finally subdivided and located in Township 6 North, Range 6 East, M.D.B.&M.

Excepting therefrom the following three (3) parcels:

(a) All that portion lying within that certain parcel described in the Deed for James R. Guttridge and Minnie L. Guttridge, husband and wife, as joint tenants, to the State of California, dated February 28, 1957, recorded May 23, 1957, in Book 3306 of Official Records, Page 23.

(b) All that portion lying Northwesterly of the following described line: Beginning at the Easterly end of that certain and distance designated "(5) N. 51° 29' 52" E. 100.21" in the Deed from James R. Guttridge and Minnie I. Guttridge, husband and wife, as joint tenants, to the State of California, dated February 28, 1957, recorded May 23, 1957, in Book 3306 of Official Records, Page 23; thence from said point of beginning Northeasterly 1193.63 feet, more or less, to a point on the Westerly boundary line of the Southern Pacific Transportation Company right of way located Southerly, along said right of way 3905.00 feet from the intersection of said Westerly boundary line with the center line of Grant Line Road.

(c) All that portion of projected Sections 17 and 18, Township 6 North, Range 6 East, M.D.B.&M. within Rancho de Los Omochumnes, being a portion of that certain tract designated "Jos. Francis McAnaw 100 Acres" shown on the Plat entitled "Tract of Land Owned by Mrs. L.M. Graham", recorded in the office of the Recorder of Sacramento County, on October 7,

1902, in Book 4 of Maps, Map No. 33, described as follows: Beginning at a point on the Westerly right of way line of The Southern Pacific Transportation Company, formerly Western Pacific Railroad, said point being located South 16° 16' 35" East 1718.09 feet from the most Northerly corner of said "Jos. Francis McAnaw 100 Acres"; thence from said point of beginning along said Westerly right of way line South 16° 16' 35" East 605.74 feet; thence South 52° 44' 36" West 518.73 feet; thence North 39° 56' 54" West 557.06 feet; thence North 52° 03' 22" East 761.83 feet to the point of beginning.

Assessors Parcel No. 134-0220-060

Assessors Parcel No. 134-0220-061

PARCEL 2:

A portion of that certain real property in Sections 17 and 20, T. 6N., R. 6E., M.D.B.&M., acquired by the State of California from Joe Cascarano and Estella Cascarano, his wife, by Deed dated June 11, 1956, recorded July 24, 1956, in Book 3124 of Official Records, Page 567.

Said portion being all of said property lying Northeasterly from the following described line:

Beginning at a point from which a California State Highway Monument distant 59.00 feet from Engineer's Station "B" 23+17.40 B.C. as per Sheet 10 of 17, Road X-Sac-4-B, approved August 29, 1933, filed September 30, 1953, in State Highway Map Book No. 3, at Page 93, Records of Sacramento County, bears S. 27° 29' 54" E. 352.22 feet, said point is also distant 92.00 feet Northeasterly, measured at right angles from Engineer's Station "B3" 26+63.18 E.C. of the base line of the Department of Public Works Survey from 1 1/2 miles South of Consumnes River to 1/2 mile South of Elk Grove Road, road II-Sac-4-B; thence from said point of beginning (1) S. 41° 61' 22" E. 520.13 feet; thence (2) S. 43° 47' 45" E. 634.78 feet; thence (3) S. 48° 13' 05" E. 700.46 feet; thence (4) S. 43° 47' 45" E. 438.88 feet, to a point distant 146.00 feet Easterly, measured radially from Engineer's Station "B3" 3+62.75 of said base line and survey.

Excepting Therefrom the following:

All that certain real property in Sections 17 and 20, Township 6 North, Range 6 East, M.D.B.&M., described as follows: Beginning at a point from which the intersection of the Westerly right of way line of the Southern Pacific Railroad Company, a 100.00 foot right of way, and the centerline of Grant Line Road bears North 16° 29' 00" West 6077.81 feet; thence from said point of beginning South 16° 29' 00" East 250.00 feet; thence South 73° 21' 00" West 80.00 feet; thence North 16° 29' 00" West 313.15 feet; thence South 66° 58' 00" East 103.70 feet to the point of beginning.

Assessors Parcel No. 134-0220-011

APN: 134-0220-011 & 060 & 061

[Legal Description to be corrected to conform to survey pending review]

EXHIBIT B

ADDITIONAL PERMITTED ENCUMBRANCES

EXHIBIT C

FIRST BASE RENTAL PAYMENT SCHEDULE*

LESSEE:

ELK GROVE COMMUNITY SERVICES DISTRICT

By: _____
Title: _____

* Subject to adjustment and replacement as provided in Section 3.1(b) of the Leaser.

STATE OF CALIFORNIA)
) SS
COUNTY OF SACRAMENTO)

On July __, 2006, before me, the undersigned, a Notary Public in and for said County and State, personally appeared _____ and _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the persons whose names are subscribed to the within instrument on behalf of Elk Grove Community Services District, California, and acknowledged to me that they executed the same in their authorized capacities, and that by their signatures on the instrument the persons, or the entity upon behalf of which the persons acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____

[SEAL]

STATE OF CALIFORNIA)
) SS
COUNTY OF SACRAMENTO)

On July __, 2006, before me, the undersigned, a Notary Public in and for said County and State, personally appeared _____ and _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the persons whose names are subscribed to the within instrument on behalf of Elk Grove Community Services District Public Facilities Acquisition Corporation and acknowledged to me that they executed the same in their authorized capacities, and that by their signatures on the instrument the persons, or the entity upon behalf of which the persons acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____

[SEAL]

When Recorded Please Return to:

Bryan Eells
AIG Commercial Equipment Finance, Inc.
5700 Granite Parkway, Suite 850
Plano, Texas 75024

ABSOLUTE ASSIGNMENT AGREEMENT

Dated as of July __, 2006

Between

ELK GROVE COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES ACQUISITION CORPORATION
(Assignor)

And

AIG COMMERCIAL EQUIPMENT FINANCE, INC.
(Assignee)

ABSOLUTE ASSIGNMENT AGREEMENT

This ABSOLUTE ASSIGNMENT AGREEMENT (the "*Assignment Agreement*"), made and entered into on July __, 2006, by and between ELK GROVE COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES ACQUISITION CORPORATION, a California nonprofit public benefit corporation, as assignor (the "*Assignor*"), whose mailing address is 8820 Elk Grove Boulevard, Suite 1, Elk Grove, California 95624, and AIG COMMERCIAL EQUIPMENT FINANCE, INC., a Delaware corporation, as assignee (the "*Assignee*"), whose mailing address is 5700 Granite Parkway, Suite 850, Plano, Texas 75024;

WITNESSETH THAT, in the joint and mutual exercise of their powers, and in consideration of \$10.00 and other good and valuable consideration and the mutual covenants herein contained, the parties hereto recite and agree as follows:

SECTION 1. RECITALS.

1.01. All terms capitalized but not defined herein shall have the meanings given to them in the Lease hereinafter referred to.

1.02. In order to carry out the governmental and proprietary functions of Elk Grove Community Services District, California (the "*Lessee*"), the Lessee has acquired an approximately 47-acre tract of land located in the County of Sacramento, State of California, described more particularly in *Exhibit A* attached hereto and made a part hereof by this reference (the "*Leased Property*"), and intends to finance the costs of that acquisition through a lease-purchase financing.

1.03. The Assignor (a) will cause to be provided \$5,200,000 to finance the costs of acquiring and improving the Leased Property and (b) has leased the Leased Property to the Lessee pursuant to the terms and subject to the conditions of that certain Lease-Purchase Agreement dated as of July 1, 2006 (the "*Lease*"), between the Assignor, as lessor, and the Lessee, as lessee.

1.04. The Assignor desires to sell, assign and convey its rights and interests in, to and under the Lease (the rights being assigned, as further described in Section 2, are hereinafter referenced as the "*Lease Rights*") to the Assignee.

1.05. The Assignee is willing to accept this assignment on the terms and conditions hereinafter provided.

SECTION 2. ASSIGNMENT; PAYMENT OF PURCHASE PRICE.

2.01. (a) The Assignor hereby sells, assigns and conveys, without recourse, to the Assignee all of its rights and interests in, to and under the Lease Rights including, except as provided in paragraph (b), without limitation, (a) the rights, but not the obligations, of the Assignor under the Lease, including without limitation the right to receive all Base Rentals required to be paid by the Lessee under the Lease, and (b) the Leased Property and all other

documents in connection with the Lease, the Leased Property and all warranties, guarantees and other contract rights the Assignor may have under the Lease. Accordingly, simultaneously upon execution of this Assignment Agreement, the Assignor has delivered to the Assignee duplicate originals of the Lease and all other documents in connection with the Lease. This assignment is absolute and unconditional and is not intended to be merely a grant of a security interest to the Assignee.

(b) Notwithstanding anything contained in this Assignment Agreement, in no event shall the Lease Rights assigned and sold pursuant to this Section 2 include bare legal title in and to the Leased Property.

(c) In consideration of the sale, transfer and assignment provided in subsection (a) of this Section 2, the Assignee has paid to the Assignor in immediately available funds the purchase price of \$5,396,983.42, receipt of which the Assignor hereby acknowledges. The Assignor hereby agrees that (i) a portion of such purchase price in the amount of \$5,200,000 shall be paid immediately on the date hereof to the Lessee in consideration for the transfer of the Leased Property to the Assignor (in its capacity as Lessor under the Lease) for purposes of the lease-purchase financing contemplated in the Lease; and (ii) the balance of such purchase price shall be paid immediately to Municipal Services Group for its services provided to the Lessee and the Assignor in connection with such lease-purchase financing.

2.02. With respect to the sale, assignment and conveyance of the Lease Rights to the Assignee hereunder, the Assignor represents, warrants and covenants to and with the Assignee that, upon the date of execution of this Assignment Agreement and the effective date of the sale, assignment and conveyance of the Lease Rights, the facts stated below are and will be true and correct:

(a) The Assignor is a nonprofit public benefit corporation, duly organized, validly existing and in good standing under the laws of the State of California, with corporate powers and authority to own its property and carry on its business as now being conducted.

(b) The Assignor has full power, authority and legal right to enter into and perform its obligations under the Lease and this Assignment Agreement; the execution, delivery and performance of the Lease and this Assignment Agreement by the Assignor have been duly authorized by all necessary corporate actions on the part of the Assignor and either (i) do not require stockholder approval or the approval or consent of any trustee or holder of any indebtedness, or obligations of the Assignor or any other person or (ii) all such required approvals and consents have heretofore been duly obtained.

(c) The execution, delivery and performance of the Lease and this Assignment Agreement do not contravene any provision of the Articles of Incorporation or Bylaws of the Assignor, and do not and will not conflict with, violate or result in any breach of or constitute a default under any indenture, mortgage, contract, agreement or instrument to which the Assignor is a party or by which it or any of its property is bound or any constitutional or statutory provision, or order, rule, regulation, decree or ordinance of any federal or state court, government or governmental body having jurisdiction over

the Assignor or any of its properties and by which the Assignor or any of its property is bound.

(d) The Lease and this Assignment Agreement are legal, valid and binding obligations of Assignor, enforceable against Assignor in accordance with their terms, subject to certain laws relating to bankruptcy, reorganization, moratorium and creditors' rights generally.

(e) The Lease delivered to the Assignor is a duly executed original and, together with all Exhibits and Schedules thereto, comprises the entire writing, obligation and agreement between Assignor and the Lessee respecting the Leased Property and payment therefor.

(f) Assignor has complied and will at all times hereafter comply with and perform its obligations under the Lease and this Assignment Agreement.

(g) There is no pending or, to the knowledge of the Assignor, threatened action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court or governmental agency in any way affecting the ability of Assignor to perform its obligations under the Lease or this Assignment Agreement.

(h) The Lease and the Leased Property are free and clear of all claims, liens, security interests and encumbrances arising through any act or omissions of the Assignor or any person claiming by, through or under it, except the interest of the Lessee under the Lease and other Permitted Encumbrances.

2.03. From and after the date of delivery to the Assignee of this Assignment Agreement, Assignor shall have no further rights or interest under the Lease with respect to same or in any Rentals or other moneys due with respect thereto or to become due under the Lease.

2.04. The Assignor agrees to execute and deliver to the Assignee all instruments deemed necessary or desirable by the Assignee in order to perfect the assignment and conveyance herein made with respect to the Lease. The Assignor further agrees to execute and deliver to the Assignee, upon request by the Assignee, any documents deemed necessary by the Assignee (acting reasonably) to further evidence and perfect the assignment and conveyance herein made with respect to the Lease and the Leased Property.

2.05. The Assignor agrees that it will authorize and direct the Lessee to pay to the Assignee and its successors and assigns, all Base Rentals and all other amounts coming due under the Lease.

2.06. Upon request by and at the expense of the Assignee, the Assignor agrees to cooperate in the Assignee's efforts to collect and cause to be remitted to the Assignee such Rentals or other amounts whatsoever coming due under the Lease.

SECTION 3. ADMINISTRATIVE PROVISIONS.

3.01. This Assignment Agreement shall be construed and governed in accordance with the laws of the State of California. Venue for any suit, action or proceeding arising out of or relating to this Assignment Agreement and the transactions contemplated hereby shall lie exclusively in the State or Federal courts located in the County of Sacramento, State of California.

3.02. Any provision of this Assignment Agreement found to be prohibited by applicable laws shall be ineffective only to the extent of such prohibition, and shall not invalidate the remainder of this Assignment Agreement.

3.03. This Assignment Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

3.04. This Assignment Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same agreement.

SECTION 4. NONRECOURSE.

The assignment contained in this Assignment Agreement is agreed to be nonrecourse with respect to the Assignor, and the Assignor shall have no liability of any nature or kind to the Assignee with respect to the occurrence of an Event of Default, as set forth in Section 9.1 of the Lease, by the Lessee under the Lease, whether such default consists of failure to pay monies, breach of covenant or otherwise, or upon the Lessee abandoning the Leased Property.

IN WITNESS WHEREOF, the Assignor and the Assignee have caused this Absolute Assignment Agreement to be signed by their respective officers hereunto duly authorized, all as of the day and year first above written.

ELK GROVE COMMUNITY SERVICES DISTRICT
PUBLIC FACILITIES ACQUISITION
CORPORATION, as Assignor

By _____
Name: _____
Title: _____

ATTEST:

Name: _____
Title: _____

AIG COMMERCIAL EQUIPMENT FINANCE, INC.,
as Assignee

By _____
Name: _____
Title: _____

ACKNOWLEDGMENTS

STATE OF CALIFORNIA)
) SS
COUNTY OF SACRAMENTO)

On July __, 2006, before me, the undersigned, a Notary Public in and for said County and State, personally appeared _____ and _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the persons whose names are subscribed to the within instrument on behalf of Elk Grove Community Services District Public Facilities Acquisition Corporation and acknowledged to me that they executed the same in their authorized capacities, and that by their signatures on the instrument the persons, or the entity upon behalf of which the persons acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____

[SEAL]

STATE OF TEXAS)
) SS
COUNTY OF _____)

On July __, 2006, before me, the undersigned, a Notary Public in and for said County and State, personally appeared _____ and _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the persons whose names are subscribed to the within instrument on behalf of AIG Commercial Equipment Finance, Inc. and acknowledged to me that they executed the same in their authorized capacities, and that by their signatures on the instrument the persons, or the entity upon behalf of which the persons acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____

[SEAL]

EXHIBIT A

LEGAL DESCRIPTION OF THE MORTGAGED PROPERTY

The Mortgaged Property is situated in the City of Elk Grove, County of Sacramento, State of and is more particularly described as follows:

PARCEL 1:

Beginning at a stake on the Westerly boundary line of the right of way of the Southern Pacific Transportation Company, formerly Central Pacific Railway Company, at a point distant South 16° 29' East 33.135 chains from the intersection of the said Westerly boundary line of the right of way of the said railroad, with the center line of the Grant Line Road, so-called and running thence along the said Westerly boundary line of said right of way of the said railroad, South 16° 29' East 58.953 chains to its intersection with the Southern boundary line of the land formerly owned by Mrs. L.M. Graham; thence along the said Southern boundary line, North 66° 58' West 18.472 chains to the center line of Stockton Boulevard, formerly Upper Stockton Road, so-called; thence along the center line of said road, 39° 35' West 12.533 chains; North 38° 33' West 24.71 chains to a point opposite to a stake set in the Easterly boundary fence of the said Stockton Boulevard, the said point being also located South 38° 33' East 30.255 chains from the intersection of the center line of the aforesaid Stockton Boulevard with the center line of the aforesaid Grant Line Road; thence North 49° 22' East 31.245 chains to the place of beginning; containing 100 acres being the same land marked "Jos. Francis McAnaw 100 Acres", on map filed October 7, 1902, in Book 4 of Maps, Map No. 33. Said land being a fractional part of the Omochumnes Rancho as the same was finally subdivided and located in Township 6 North, Range 6 East, M.D.B.&M.

Excepting therefrom the following three (3) parcels:

(a) All that portion lying within that certain parcel described in the Deed for James R. Guttridge and Minnie L. Guttridge, husband and wife, as joint tenants, to the State of California, dated February 28, 1957, recorded May 23, 1957, in Book 3306 of Official Records, Page 23.

(b) All that portion lying Northwesterly of the following described line: Beginning at the Easterly end of that certain and distance designated "(5) N. 51° 29' 52" E. 100.21" in the Deed from James R. Guttridge and Minnie I. Guttridge, husband and wife, as joint tenants, to the State of California, dated February 28, 1957, recorded May 23, 1957, in Book 3306 of Official Records, Page 23; thence from said point of beginning Northeasterly 1193.63 feet, more or less, to a point on the Westerly boundary line of the Southern Pacific Transportation Company right of way located Southerly, along said right of way 3905.00 feet from the intersection of said Westerly boundary line with the center line of Grant Line Road.

(c) All that portion of projected Sections 17 and 18, Township 6 North, Range 6 East, M.D.B.&M. within Rancho de Los Omochumnes, being a portion of that certain tract designated

"Jos. Francis McAnaw 100 Acres" shown on the Plat entitled "Tract of Land Owned by Mrs. L.M. Graham", recorded in the office of the Recorder of Sacramento County, on October 7, 1902, in Book 4 of Maps, Map No. 33, described as follows: Beginning at a point on the Westerly right of way line of The Southern Pacific Transportation Company, formerly Western Pacific Railroad, said point being located South 16° 16' 35" East 1718.09 feet from the most Northerly corner of said "Jos. Francis McAnaw 100 Acres"; thence from said point of beginning along said Westerly right of way line South 16° 16' 35" East 605.74 feet; thence South 52° 44' 36" West 518.73 feet; thence North 39° 56' 54" West 557.06 feet; thence North 52° 03' 22" East 761.83 feet to the point of beginning.

Assessors Parcel No. 134-0220-060

Assessors Parcel No. 134-0220-061

PARCEL 2:

A portion of that certain real property in Sections 17 and 20, T. 6N., R. 6E., M.D.B.&M., acquired by the State of California from Joe Cascarano and Estella Cascarano, his wife, by Deed dated June 11, 1956, recorded July 24, 1956, in Book 3124 of Official Records, Page 567.

Said portion being all of said property lying Northeasterly from the following described line:

Beginning at a point from which a California State Highway Monument distant 59.00 feet from Engineer's Station "B" 23+17.40 B.C. as per Sheet 10 of 17, Road X-Sac-4-B, approved August 29, 1933, filed September 30, 1953, in State Highway Map Book No. 3, at Page 93, Records of Sacramento County, bears S. 27° 29' 54" E. 352.22 feet, said point is also distant 92.00 feet Northeasterly, measured at right angles from Engineer's Station "B3" 26+63.18 E.C. of the base line of the Department of Public Works Survey from 1 1/2 miles South of Consumnes River to 1/2 mile South of Elk Grove Road, road II-Sac-4-B; thence from said point of beginning (1) S. 41° 61' 22" E. 520.13 feet; thence (2) S. 43° 47' 45" E. 634.78 feet; thence (3) S. 48° 13' 05" E. 700.46 feet; thence (4) S. 43° 47' 45" E. 438.88 feet, to a point distant 146.00 feet Easterly, measured radially from Engineer's Station "B3" 3+62.75 of said base line and survey.

Excepting Therefrom the following:

All that certain real property in Sections 17 and 20, Township 6 North, Range 6 East, M.D.B.&M., described as follows: Beginning at a point from which the intersection of the Westerly right of way line of the southern Pacific Railroad Company, a 100.00 foot right of way, and the centerline of Grant Line Road bears North 16° 29' 00" East 250.00 feet; thence South 73° 21' 00" West 80.00 feet; thence North 16° 29' 00" West 313.15 feet; thence South 66° 58' 00" East 103.70 feet to the point of beginning.

Assessors Parcel No. 134-0220-011

APN: 134-0220-011 & 060 & 061

[Legal Description to be corrected to conform to survey pending review]

When Recorded Please Return to:

Bryan Eells
AIG Commercial Equipment Finance, Inc.
5700 Granite Parkway, Suite 850
Plano, Texas 75024

MORTGAGE, SECURITY AGREEMENT AND ASSIGNMENT OF RENTS

Dated as of July 1, 2006

From

ELK GROVE COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES ACQUISITION CORPORATION
(Mortgagor)

To

AIG COMMERCIAL EQUIPMENT FINANCE, INC.
(Mortgagee)

FIXTURE FILING NOTICE: THIS MORTGAGE, SECURITY AGREEMENT AND ASSIGNMENT OF RENTS IS INTENDED TO CONSTITUTE A FINANCING STATEMENT FILED AS A FIXTURE FILING PURSUANT TO SECTION 9502(c) OF THE CALIFORNIA COMMERCIAL CODE AND COVERS GOODS THAT ARE OR ARE TO BECOME FIXTURES RELATED TO THE REAL ESTATE DESCRIBED HEREIN, AFTER-ACQUIRED PROPERTY AND PROCEEDS.

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Mortgage, Security Agreement and Assignment of Rents,
but is only for convenience of reference.)

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**MORTGAGE, SECURITY AGREEMENT AND
ASSIGNMENT OF RENTS**

THIS MORTGAGE, SECURITY AGREEMENT AND ASSIGNMENT OF RENTS (hereafter referred to as this "*Mortgage*"), made and entered into as of July 1, 2006, by and between ELK GROVE COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES ACQUISITION CORPORATION (the "*Mortgagor*"), a California nonprofit public benefit corporation whose mailing address is 8820 Elk Grove Boulevard, Suite 1, Elk Grove, California 95624, and AIG COMMERCIAL EQUIPMENT FINANCE, INC., a Delaware corporation (the "*Mortgagee*"), whose mailing address is 5700 Granite Parkway, Suite 850, Plano, Texas 75024;

WITNESSETH:

WHEREAS, the Mortgagor and Elk Grove Community Services District, California (the "*Lessee*"), have entered into that certain Lease-Purchase Agreement, dated as of July 1, 2006 (the "*Lease*"), pursuant to which the Mortgagor has agreed, among other things, (a) to acquire and improve a certain tract of land located in the County of Sacramento, State of California, more particularly described in the Granting Clause (as hereinafter defined) hereto, together with all buildings and improvements thereon and all tenements, hereditaments, easements, rights-of-way, rights, privileges and appurtenances belonging or in any ways appertaining thereto (the "*Property*"), and (b) to lease the Property to the Lessee on the terms and conditions set forth in the Lease; and

WHEREAS, the Mortgagor desires to provide security for the payment of the Rentals due under the Lease and to provide security for the performance and observance by the Mortgagor of all the covenants expressed or implied in the Lease or herein;

NOW, THEREFORE, in consideration of the premises, and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the Mortgagor does hereby MORTGAGE, GRANT, CONVEY, TRANSFER and ASSIGN unto the Mortgagee, and the Mortgagee's successors and assigns, and does hereby grant to the Mortgagee, its successors and assigns, a security interest (as a purchase money obligation and mortgage) in all right, title and interest that the Mortgagor now has or may hereafter acquire in the following described properties, rights, interests and privileges (hereinafter sometimes collectively referred to as the "*Mortgaged Property*");

GRANTING CLAUSE

All right, title and interest of the Mortgagor in and to the real estate situated in the County of Sacramento, State of California, that is more particularly described on *Exhibit A* attached hereto and incorporated herein by this reference, TOGETHER WITH (i) the entire interest of the Mortgagor in and to all buildings, structures, improvements and appurtenances now standing, or at any time hereafter acquired, constructed, improved, extended or placed, upon such real estate, including all right, title and interest of the Mortgagor, if any, in and to all building material, building equipment and fixtures of every kind and nature whatsoever on any of said real estate or

in any building, structure or improvement now or hereafter standing on said real estate, which are classified as fixtures under applicable law and which are used in connection with the operation, maintenance or protection of said buildings, structures and improvements as such, whether or not the same are used in connection with the operation of any business conducted upon any of said real estate, and the reversion or reversions, remainder or remainders, in and to any of said real estate, and together with the entire interest of the Mortgagor in and to all and singular the tenements, hereditaments, easements, rights-of-way, rights, privileges and appurtenances to said real estate, belonging or in any wise appertaining thereto, including without limitation the entire right, title and interest of the Mortgagor in, to and under any streets, ways, alleys, gores or strips of land adjoining said real estate, and all claims or demands whatsoever of the Mortgagor either in law or in equity, in possession or expectancy of, in and to said real estate, it being the intention of the parties hereto that, so far as may be permitted by law, all property of the character hereinabove described, which is now owned or is hereafter acquired by the Mortgagor and is affixed or attached or annexed to said real estate, shall be and remain or become and constitute a portion of said real estate and the security covered by and subject to the lien of this Mortgage, and together with all rents, income, revenues, issues and profits thereof, and the present and continuing right to make claim for, collect, receive and receipt for any and all of such rents, income, revenues, issues and profits arising therefrom or in connection therewith; (ii) all appurtenances, easements, water and water rights belonging to or used upon or in connection with said real estate (however represented), pumps, pumping plants, pipes, flumes and ditches, rights-of-way and other rights used in connection therewith or as a means of access thereto, or hereafter owned or constructed or placed thereupon; (iii) all the estate, interest, right, title, property or other claim or demand of every nature whatsoever in and to the Mortgaged Property, including specifically, but without limitation, all deposits made with or other security given to utility companies by the Mortgagor with respect to the Mortgaged Property and claims or demands relating to insurance or condemnation awards that the Mortgagor now has or may hereafter acquire, including all advance payments of insurance premiums made by the Mortgagor with respect thereto; (iv) all right, title and interest of the Mortgagor in and to all ground leases, leases, subleases, licenses, occupancy agreements, concessions or other arrangements, whether written or oral, whereby any person, corporation or business or governmental entity has agreed to pay money or any consideration for the use, possession or occupancy of the premises hereby conveyed or subject to the lien hereof, or any part or portion thereof or space therein, and all rents, income, profits, benefits, advantages and claims against guarantors under any of the foregoing; and (v) all rents, profits, damages, royalties and revenues of every kind, nature and description whatsoever that the Mortgagor may be entitled to receive from any person or entity owning or having or hereafter acquiring a right to the oil, gas, water (whether riparian, appropriative or otherwise, and whether or not appurtenant) or mineral rights and reservations of the Mortgaged Property, with the right in the Mortgagee to receive and receipt therefor and apply the same to the indebtedness secured hereby either before or after any default hereunder or under the Lease, and the Mortgagee may demand, sue for and recover any such payments but shall not be required to do so.

To the extent that the Mortgaged Property is not comprised of real property, this Mortgage constitutes or shall be treated as constituting a security agreement under the California Commercial Code, so that the Mortgagee shall have and may enforce a security interest to secure payments of all sums due or to become due under this Mortgage or the Lease, in any or all of the

aforesaid building material, building equipment and fixtures and other articles of property, real, personal and mixed, now owned or hereafter acquired, in addition to, but not in limitation of, the lien upon the same as part of the realty imposed by the foregoing provision hereof, such security interest to attach at the earliest moment permitted by law.

TO HAVE AND TO HOLD all and singular the Mortgaged Property, whether now owned or hereafter acquired, unto the Mortgagee and its respective successors in said Mortgaged Property and assigns;

SUBJECT, HOWEVER, to Permitted Encumbrances (as defined in the Lease).

The foregoing provisions of this Mortgage are herein referred to collectively as the "Granting Clause."

FOR THE PURPOSE OF SECURING:

(1) payment of the rental payments pursuant to the Lease in the aggregate principal amount of \$5,200,000, which rental payments are payable in quarterly installments of interest and principal components for as long as the Lessee has beneficial use and enjoyment of the leased property for the term of the Lease, all such payments of principal, interest and other amounts being payable by the Mortgagor to the Mortgagee at the corporate office of the Mortgagee at its address first above written;

(2) payment of each and every obligation and performance of each and every covenant and agreement of the Mortgagor contained herein or in the Lease, as the Lease may be amended or supplemented from time to time in accordance with its terms.

The Mortgagor hereby covenants with the Mortgagee that the Mortgagor has marketable fee simple title (as described in the Granting Clause) in and to the Mortgaged Property; that the Mortgagor has good and lawful authority to assign, sell, convey and mortgage the same; that the Mortgaged Property is free and clear of all liens and encumbrances whatsoever, except as may be above stated and except Permitted Encumbrances; and the Mortgagor covenants to warrant and defend the Mortgaged Property against the lawful claims of all persons whomsoever, except as may be above stated, subject to Section 1.19 hereof.

PROVIDED, HOWEVER, that if the Mortgagor, its successors or assigns, shall well and truly pay, or cause to be paid, the aggregate Base Rentals or the Purchase Option Price at the time and in the manner described in the Lease then upon such payment this Mortgage and the rights hereby granted shall cease, determine and be void; otherwise this Mortgage is to be and shall remain in full force and effect.

All capitalized terms used but not otherwise specifically defined in this Mortgage shall have the meaning ascribed to such terms in the Lease.

IN ORDER MORE FULLY TO PROTECT THE SECURITY OF THIS MORTGAGE, THE MORTGAGOR HEREBY COVENANTS AND AGREES AS FOLLOWS:

ARTICLE I

COVENANTS AND AGREEMENTS OF THE MORTGAGOR

The Mortgagor hereby covenants and agrees as follows, subject in each instance to Section 1.19 hereof.

Section 1.1. Payment of Secured Obligations. The Mortgagor shall cause the Rentals under the Lease to be promptly paid at the places, on the dates and in the manner provided in the Lease.

Section 1.2. Maintenance, Repair and Operation. The Mortgagor shall, at its own expense, maintain, repair, manage and operate the Mortgaged Property, or cause the same to be maintained, managed and operated, in good order, condition and repair and shall suffer no waste or injury thereto, ordinary wear and tear excepted. The Mortgagor shall provide or cause to be provided all security service, custodial service, janitor service, power, gas, telephone, light, heating and water and all other public utility services. In maintaining, repairing and operating the Mortgaged Property as described herein, the Mortgagor shall keep the Mortgaged Property or cause the Mortgaged Property to be kept free and clear of all liens, charges and encumbrances, except those caused or consented to by the Mortgagee in accordance with the Lease and except Permitted Encumbrances. The Mortgagee hereby acknowledges that the Mortgagor has caused its covenants in this Section 1.2 to be performed by the Lessee pursuant to Sections 7.1 and 7.2 of the Lease.

Section 1.3. Required Insurance. (a) The Mortgagor shall at all times maintain or cause to be maintained with responsible insurers all such insurance on the Mortgaged Property (valued as defined below) that is customarily maintained with respect to properties of like character against accident to, loss of or damage to such properties. Notwithstanding the generality of the foregoing, the Mortgagor shall not be required to maintain or cause to be maintained any insurance that is not available from reputable insurers on the open market or more insurance than is specifically referred to below.

The Mortgagor shall:

(i) Keep or cause to be kept a policy or policies of insurance against loss or damage to the Mortgaged Property resulting from fire, lightening, vandalism, malicious mischief, riot and civil commotion, and such perils ordinarily defined as "extended coverage" and other perils as the Mortgagee and the Mortgagor may have agreed in the Lease or may otherwise agree should be insured against on forms and in amounts satisfactory to each. Such insurance may be carried in conjunction with any other fire and extended coverage insurance carried or required to be carried by the Mortgagor. Such extended coverage insurance shall, as nearly as practicable, also cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be maintained in an amount not less than the full insurable value of the Mortgaged Property as provided in the Lease.

(ii) Maintain or cause to be maintained public liability insurance against claims for bodily injury or death, or damage to property occurring upon, in or about the Mortgaged Property, such insurance to afford protection to a limit of not less than \$1,000,000 combined single limit; *provided, however*, that nothing herein shall be construed to require the Mortgagor to maintain or cause to be maintained any such public liability insurance for amounts greater than the limitations on such liability provided under California Law. Such insurance may be carried in conjunction with any other liability insurance coverage carried or required to be carried by the Mortgagor or the Lessee.

(iii) Maintain or cause to be maintained workers' compensation coverage to the extent required by law and as provided in the Lease.

All insurance herein provided for shall be effected under policies issued by insurers of recognized responsibility, licensed or permitted to do business in the State of California. The Mortgagor may, in its discretion, insure the Mortgaged Property or permit the Mortgaged Property to be insured under blanket insurance policies that insure not only the Mortgaged Property, but other properties as well, so long as such blanket insurance policies otherwise comply with the terms of this Section 1.3(a).

All policies or certificates issued by the respective insurers for insurance shall provide that such policies or certificates shall not be canceled or materially changed without at least thirty (30) days prior written notice to the Mortgagee. Certificates evidencing such policies shall be deposited with the Mortgagee together with appropriate evidence of payment of the premiums therefor, and, at least thirty (30) days prior to expiration dates of expiring policies or contracts held by the Mortgagee, copies of renewal or new policies or contracts or certificates shall be deposited with the Mortgagee together with evidence of payment of premiums therefor.

All policies of insurance (except the policies of public liability and property damage insurance and Rental abatement insurance) must provide that the proceeds thereof shall be payable to the Mortgagee. The Net Proceeds of fire and extended coverage insurance shall be applied to rebuild, replace and repair the affected portion of the Mortgaged Property. The Net Proceeds of public liability and property damage insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the Net Proceeds of such insurance shall have been paid.

(b) Notwithstanding anything herein to the contrary, any policies of insurance or any deductible under any policies of insurance that the Mortgagor is required to keep or cause to be kept pursuant to Section 1.3(a) hereof may be provided through a self-insurance program available to the Mortgagor to the extent expressly permitted by the Lease.

(c) The Mortgagor for itself and its insurers, to the extent possible (as a reasonable cost) and to the extent permitted by law, hereby waives any claim against the Mortgagee, including claims based on negligence, if the claim results from any of the perils the Mortgagor is required to insure against or provide self-insurance for in this Section 1.3.

(d) The Mortgagee hereby acknowledges that the Mortgagor has caused its covenants in this Section 1.3 to be performed by the Lessee pursuant to Section 7.3 of the Lease.

Section 1.4. Assignment of Policies Upon Foreclosure. In the event of foreclosure of this Mortgage or other transfer of title or assignment of the Mortgaged Property in extinguishment, in whole or in part, of the obligations secured hereby, all right, title and interest of the Mortgagor in and to all policies of insurance and self-insurance required by Section 1.3 hereof shall inure to the benefit of and pass to the successor in interest to the Mortgagor or the purchaser or grantee of the Mortgaged Property to the extent not prohibited by law.

Section 1.5. Actions Affecting Mortgaged Property. The Mortgagor shall appear in and defend any action or proceeding affecting or purporting to affect the security of this Mortgage, any additional or other security for any of the obligations secured hereby or the interest, rights, powers or duties of the Mortgagee hereunder; it being agreed, however, that in the case of an action or proceeding against the Mortgagee, the Mortgagee, at its option, may appear in and defend any such action or proceeding deemed necessary by it to perfect, maintain or protect such interest, rights, powers or duties, all in such manner and to such extent as the Mortgagee shall determine in its own discretion, and the Mortgagee is authorized to pay, purchase or compromise on behalf of the Mortgagor any encumbrance or claim that in its judgment appears or purports to affect the security hereof or to be superior hereto; and to pay all costs and expenses, including, but not limited to, costs of evidence of title and attorney's fees in a reasonable sum, in any above-described action or proceedings in which the Mortgagor may appear.

Section 1.6. Taxes. (a) The Mortgagor and the Mortgagee understand and agree that the Mortgaged Property constitutes public property free and exempt from all taxation in accordance with applicable law.

(b) Notwithstanding Section 1.6(a) hereof, in the event that the Mortgaged Property or any portion thereof or any portion of the Rentals shall, for any reason, be deemed subject to taxation, assessments or charges lawfully made by any governmental body that may be secured by a lien against the Mortgaged Property or any portion of the Rentals, all such taxes, assessments and governmental charges then due shall be paid, or caused to be paid, by the Mortgagor, but only from amounts constituting Additional Rentals paid by the Lessee as provided in the Lease. With respect to special assessments or other governmental charges that may be lawfully paid in installments over a period of years, the Mortgagor shall be obligated hereunder to cause the Lessee to provide for Additional Rentals under the Lease only for such installments as are required to be paid during the term of the Lease. The Mortgagor shall not allow any liens for taxes, assessments or governmental charges to exist with respect to the Mortgaged Property or any portion thereof (including, without limitation, any taxes levied upon the Mortgaged Property or any portion thereof that, if not paid, will become a charge on the Rentals and receipts from the Mortgaged Property or any portion thereof prior to or on a parity with the charge thereon and the pledge and assignment thereof to be created and made in the Lease and this Mortgage), or any interest therein (including the interest of the Mortgagor) or the Rentals and revenues derived therefrom or hereunder, except to the extent permitted by Section 1.6(c) hereof.

(c) In addition to the rights of the Lessee under Section 7.2 of the Lease, the Mortgagor may, at its expense and in its name, in good faith contest, or cause to be contested, any such taxes, assessments and other charges, and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless by nonpayment of any such items the security afforded pursuant to the terms of the Lease or this Mortgage will be materially endangered (in the judgment of the Mortgagee) or the Mortgaged Property or any essential part thereof will be subject to loss or forfeiture (in the judgment of the Mortgagee), in which event such taxes, assessments or charges shall be paid forthwith. The Mortgagee will cooperate fully with the Mortgagor in any such contest upon the request and at the expense of the Mortgagor.

(d) The Mortgagee hereby acknowledges that the Mortgagor has caused its covenants in this Section 1.6 to be performed by the Lessee pursuant to Section 7.2 of the Lease.

Section 1.7. Alterations, Additions and Improvements to the Mortgaged Property.

(a) The Mortgagor shall have the right to make or permit to be made any alterations, additions, replacements, renovations, rehabilitations or improvements of any kind, structural or otherwise, as it shall deem necessary or desirable, on or to the Mortgaged Property, to attach fixtures, structures or signs, and to affix any personal property to the improvements on the Mortgaged Property; *provided, however*, that no such alteration, addition, replacement, renovation, rehabilitation or improvement shall reduce or otherwise adversely affect the value of the Mortgaged Property or the fair rental value thereof (such value to be determined in each instance with reference to the value to the Lessee based upon its use of the Mortgaged Property under the Lease and not with reference to such value as may be applicable for a different use or by a different user of the Mortgaged Property) or materially alter or change the character or use of the Mortgaged Property or impair the excludability of the interest component of Base Rentals from gross income of the Lessor for federal income tax purposes or otherwise adversely affect the purposes for which the Mortgagor acquired the Mortgaged Property or for which the Lessee is leasing the Mortgaged Property pursuant to the Lease.

(b) The Mortgagor will not permit any mechanic's or other lien to be established or remain against the Mortgaged Property for labor or materials furnished in connection with any construction, substitutions, additions, modifications, improvements, repairs, renewals or replacements so made or permitted to be made by the Mortgagor, *provided* that if the Mortgagor shall first notify the Mortgagee of the Mortgagor's intention so to do, the Mortgagor may in good faith contest or cause to be contested any mechanic's or other lien filed or established against the Mortgaged Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom unless by nonpayment of any such items the security afforded pursuant to the terms of the Lease or this Mortgage will be materially endangered (in the judgment of the Mortgagee) or the Mortgaged Property or any essential part thereof will be subject to loss or forfeiture (in the judgment of the Mortgagee), in which event the Mortgagor shall promptly pay, or cause to be paid, and cause to be satisfied and discharged all such unpaid items. The Mortgagee will cooperate fully with the Mortgagor in any such contest, upon the request and at the expense of the Mortgagor.

(c) The title to any personal property, improvements or fixtures placed on or in the Mortgaged Property by any sublessee or licensee of the Lessee shall be controlled by the sublease or license agreement between such sublessee or licensee and the Lessee.

(d) If after the occurrence of an Event of Default under the Lease, the Lessee moves out or is dispossessed and fails to remove any of its property at the time of such moving out or dispossession, then and in that event, the Mortgagee shall have the option, following not less than thirty (30) days prior written notice to the Lessee of the Mortgagee's intention to exercise such option, either to regard such property as abandoned by the Lessee, in which case such property shall become the property of the Mortgagor subject to this Mortgage, or shall have the right to demand that the Lessee remove such property from the Mortgaged Property, and in the event of failure of the Lessee to comply with said demand, the Mortgagee shall have the right to remove, sell or destroy such property.

Section 1.8. Utilities. The Mortgagor shall pay or cause to be paid when due (but only from amounts constituting Additional Rentals paid by the Lessee as provided in the Lease) all utility charges that are incurred for the benefit of the Mortgaged Property or that may become a charge or lien against the Mortgaged Property for gas, electricity, water or sewer services furnished to the Mortgaged Property and all other assessments or charges of a similar nature, whether public or private, affecting the Mortgaged Property or any portion thereof, whether or not such taxes, assessments or charges are liens thereon.

Section 1.9. Actions by Mortgagee to Preserve Mortgaged Property. If the Mortgagor fails to make or cause to be made any payment or to do or cause to be done any act as and in the manner provided in this Mortgage or the Lease, the Mortgagee in its own discretion, without obligation so to do and without notice to or demand upon the Mortgagor and without releasing the Mortgagor from any obligation, may make or do the same in such manner and to such extent as the Mortgagee may deem necessary to protect the security hereof; *provided, however*, that the Mortgagee shall only take any of the actions authorized by this Section after providing at least thirty (30) days' prior written notice to the Mortgagor, unless by providing such notice for such period prior to taking any action the security afforded pursuant to the terms of this Mortgage will be materially endangered (in the judgment of the Mortgagee) or the Mortgaged Property or any essential part thereof will be subject to loss or forfeiture (in the judgment of the Mortgagee), in which event the Mortgagee shall provide such written notice to the Mortgagor prior to taking any action authorized by this Section as shall be reasonable under the circumstances. In connection therewith (without limiting its general powers), the Mortgagee shall have and is hereby given the right, but not the obligation, (a) to enter upon and take possession of the Mortgaged Property; (b) to make additions, alterations, repairs and improvements to the Mortgaged Property that it may consider necessary or proper to keep the Mortgaged Property in good condition and repair; (c) to appear and participate in any action or proceeding affecting or that may affect the security hereof or the rights or powers of the Mortgagee; (d) to pay, purchase, contest or compromise any encumbrance, claim, charge, lien or debt that in its judgment may affect or appears to affect the security of this Mortgage or be prior or superior hereto; and (e) in exercising such powers, to pay necessary expenses, including employment of counsel or other necessary or desirable consultants. The Mortgagor shall immediately, upon demand therefor by the Mortgagee, pay all reasonable costs and expenses incurred by the Mortgagee in connection with the exercise by the

Mortgagee of the foregoing rights, including, without limitation, costs of evidence of title, court costs, appraisals, surveys and attorneys' fees, but only from amounts constituting Additional Rentals paid by the Lessee as provided in the Lease.

Section 1.10. Additional Security. In the event the Mortgagee at any time holds additional security for any of the obligations secured hereby, the Mortgagee may enforce the sale thereof or otherwise realize upon the same, at its option, either before or concurrently herewith or after foreclosure hereunder.

Section 1.11. Successors and Assigns. This Mortgage applies to, inures to the benefit of and binds all parties hereto, their heirs, legatees, devisees, administrators, executors, successors and assigns.

Section 1.12. Inspections. The Mortgagee, or its agents, representatives or workers, are authorized to enter upon or in any part of the Mortgaged Property during reasonable business hours (and in emergencies at all times) for the purpose of inspecting the same and for the purpose of performing any of the acts it is authorized to perform under the terms of this Mortgage or the Lease; *provided, however*, that the rights of access hereby granted may be limited to such areas in the Mortgaged Property as the Mortgagor or the Lessee determines to be necessary to preserve the security of the operations conducted in the Mortgaged Property and nothing herein shall be construed to authorize the Mortgagee to obtain any information pursuant to its right of inspection granted herein that the Mortgagor or the Lessee may determine to be of a confidential nature. Notwithstanding anything herein to the contrary, the Mortgagee shall be entitled to exercise its rights granted pursuant to this Section only after the Mortgagee has provided not less than five (5) days prior written notice to the Mortgagor and the Lessee stating its desire to make such an inspection and outlining its proposed actions in connection with such inspection, subject to the limitations herein provided.

Section 1.13. Liens. The Mortgagor shall pay and discharge, or cause to be paid and discharged, promptly, at the Mortgagor's cost and expense, all liens, encumbrances and charges upon the Mortgaged Property, except Permitted Encumbrances, or any part thereof or interest therein; *provided* that the existence of any such liens, encumbrances or charges upon the Mortgaged Property shall not constitute a violation of this Section if payment is not yet due under the contract that is the foundation thereof. In addition to the rights of the Lessee under the Lease, the Mortgagor shall have the right to contest in good faith the validity of any such lien, encumbrance or charge and, in the event of any such contest, may permit such liens, encumbrances or charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless by nonpayment of any such items the security afforded pursuant to the terms of the Lease or this Mortgage will be materially endangered (in the judgment of the Mortgagee) or the Mortgaged Property or any essential part thereof will be subject to loss or forfeiture (in the judgment of the Mortgagee), in which event such liens, encumbrances or charges shall be paid forthwith, but only from moneys legally available for such purpose.

Section 1.14. Condemnation Proceeds. All condemnation proceeds of the Mortgaged Property shall be deposited with the Mortgagee under the Lease and are hereby assigned to the Mortgagee to be held and disbursed by the Mortgagee as provided in Section 7.4 of the Lease;

provided, however, that such application or release shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice.

Section 1.15. Governmental Requirements. The Mortgagor shall comply with, and cause the Mortgaged Property and the use and condition thereof to comply fully with, all statutes, ordinances and requirements, regulations, orders and decrees relating to the Mortgagor or the Mortgaged Property or the use thereof by any federal, state, county or other governmental authority to the extent applicable (including, but not limited to, the Americans with Disability Act of 1990, as amended) and observe and comply with all conditions and requirements necessary to preserve and extend any and all rights, licenses, permits, privileges and franchises (including, but not limited to, those relating to land use and development, construction, access, water rights and use, noise and pollution) that are applicable to the Mortgagor or have been granted for the Mortgaged Property or the use thereof.

Section 1.16. Parking Areas. The Mortgagor shall provide and improve or cause to be provided and improved as parking facilities within the Mortgaged Property surface areas of a square footage at least sufficient to park as many vehicles as required by applicable local ordinances.

Section 1.17. Performance of Mortgagor's Covenants; Authority. The Mortgagor shall faithfully observe and perform at all times any and all covenants, conditions and agreements on its part contained in this Mortgage and the Lease, and in all proceedings of the Mortgagor pertaining thereto. The Mortgagor represents that it is duly authorized under the laws of the State of California, and that it has all right, power and authority, to grant a mortgage lien on and security interest in the Mortgaged Property to the Mortgagee for the purposes and uses herein set forth, and to enter into, execute and deliver this Mortgage; and that all action on its part for the execution and delivery of this Mortgage has been duly and effectively taken. The Mortgagor warrants that there is no financing statement or other filed or recorded instrument in which the Mortgagor is named as, or which the Mortgagor has signed as, debtor now on file in any public office covering any of the Mortgaged Property excepting the financing statements or other instruments filed or to be filed in respect of and for the security interest provided for herein and in the Lease, and that such liens and security interests created in this Mortgage and the Lease have been duly perfected and are prior to any other.

Section 1.18. Actions of Mortgagor with Respect to Mortgaged Property. The Mortgagor will not:

(a) declare a default or exercise the remedies of the seller or lessor, as the case may be, under, or terminate, modify or accept a surrender of, or offer or agree to any termination, waiver, modification or surrender of, the Lease or by affirmative act consent to the creation or existence of any Lien (other than the security interests and liens of the Lease, and this Mortgage) to secure the payment of obligations upon the leasehold or other estate created by the Lease or any part of any thereof; or

(b) receive or collect or permit the receipt or collection of any payment under the Lease prior to the date for the payment thereof provided for by the Lease or assign,

transfer or hypothecate (other than to the Mortgagee) any payment then due or to accrue in the future under the Lease in respect of the Mortgaged Property; or

(c) sell, mortgage, transfer, assign or hypothecate (other than to the Mortgagee) its interest in the Mortgaged Property or any part thereof or interest therein or in any amount to be received by it from the disposition of the Mortgaged Property except as provided in the Lease.

Section 1.19. Limited Obligation. Notwithstanding anything herein to the contrary, the obligations of the Mortgagor under this Mortgage are not general obligations of the Mortgagor, but are limited obligations and, except for the security provided by the Lease, this Mortgage is payable solely from Rentals received under the Lease. Neither the full faith and credit nor the taxing powers of the State of California or any political subdivision of such State is pledged to the payment of any obligations of the Mortgagor under this Mortgage. Such obligations shall not now nor shall ever constitute an indebtedness of the State of California or any political subdivision of such State within the meaning of any state constitutional provision or limitation nor give rise to or be a general obligation or liability of, nor a charge against the general credit or taxing powers of, the State of California or any political subdivision of such State.

ARTICLE II

ASSIGNMENT OF RENTS, ISSUES AND PROFITS

Section 2.1. Assignment of Rents. The Mortgagor hereby assigns and transfers to the Mortgagee all the rents, issues and profits of the Mortgaged Property, including, without limitation, all right, title, interest, estate, claims and demands of the Mortgagor in and to the immediate and continuing right to receive and collect all Base Rentals, Purchase Option Price (if paid), insurance proceeds (including any moneys derived from any self-insurance program), condemnation awards and other payments, tenders and security now or hereafter payable to or on behalf of or receivable by the Mortgagor under the Lease pursuant thereto. To the extent permitted by law, the Mortgagor does hereby irrevocably constitute and appoint the Mortgagee its true and lawful attorney with an interest and full power of substitution, for it and in its name, place and stead (a) to ask, demand, collect, receive and receipt for any and all rents, income and other sums that are assigned under the Granting Clause hereof or under this Article II, and (b) without limiting the provisions of the foregoing clause (a) hereof, during the continuance of any Event of Default under this Mortgage, to exercise any remedies available under the Lease as fully as the Mortgagor could itself do as lessor thereunder, and to perform all other necessary or appropriate acts with respect to any such remedies, and in its discretion to file any claim or take any other action or proceedings against lessees, licensees or other users of the Mortgaged Property or any portion thereof or space therein, either in its own name or in the name of the Mortgagor or otherwise, which the Mortgagee may deem necessary or appropriate to protect and preserve the right, title and interest of the Mortgagee (but only to the extent specifically provided herein) in the Lease and other sums and the security intended to be afforded hereby, whether or not the Mortgagor is in default hereunder. Notwithstanding the foregoing, the Mortgagor shall have the right, subject to Section 1.18 of this Mortgage, to collect and use such rents, issues and profits prior to or at any time there is not an Event of Default under this Mortgage or the Lease. The

assignment of rents, issues and profits of the Mortgaged Property in this Article II is intended to be an absolute assignment from the Mortgagor to the Mortgagee and not merely the passing of a security interest. The rents, issues and profits are hereby assigned absolutely by the Mortgagor to the Mortgagee subject only to the right of the Mortgagor, subject to Section 1.18 of this Mortgage, to collect and use such rents, issues, and profits prior to the occurrence of an Event of Default under this Mortgage or the Lease.

Section 2.2. Collection Upon Default. Upon any Event of Default hereunder or under the Lease, the Mortgagee may, at any time without notice (except as otherwise hereinafter provided), either in person, by agent or by a receiver appointed by a court, and without regard to the adequacy of any security for the obligations hereby secured, enter upon and take possession of the Mortgaged Property, or any part thereof, or space therein, in its own name sue for or otherwise collect such rents, issues and profits, including those past due and unpaid, and apply the same, less costs and expenses of operation and collection, including reasonable attorneys' fees, upon any obligations secured hereby, and in such order as the Mortgagee may determine. The collection of such rents, issues and profits, or the entering upon and taking possession of the Mortgaged Property, or the application thereof as aforesaid, shall not cure or waive any default or notice of default hereunder or invalidate any act done in response to such default or pursuant to such notice of default. The Mortgagee's failure or discontinuance at any time to collect any of such rents, issues and profits shall not in any manner affect the right, power or authority of the Mortgagee thereafter to collect the same. Nothing contained herein, nor the Mortgagee's exercise of the Mortgagee's right to collect such rents, issues and profits, shall be or be construed to be an affirmation by the Mortgagee of any tenancy, lease, option or other interest in the Mortgaged Property, or an assumption of liability under, or a subordination of the lien or charge of this Mortgage to, any tenancy, lease, option or other interest in the Mortgaged Property.

ARTICLE III

SECURITY AGREEMENT

Section 3.1. Creation of Security Interest. The Mortgagor hereby grants to the Mortgagee a present security interest in the personal property, if any, described and referred to in the Granting Clause hereto for the purpose of securing payment and performance of all obligations of the Mortgagor contained herein or in the Lease.

Section 3.2. Financing Statement. This Mortgage also constitutes a Financing Statement within the purview of the California Commercial Code, and in compliance therewith the following information is set forth:

1. The names and addresses of the Debtor and the Secured Party are:

DEBTOR: Elk Grove Community Services District Public
Facilities Acquisition Corporation
8820 Elk Grove Boulevard
Suite 1
Elk Grove, California 95624
Attention: President

SECURED PARTY: AIG Commercial Equipment Finance, Inc.
5700 Granite Parkway
Suite 850
Plano, Texas 75024
Attention: Daniel R. Fluharty
Vice President

2. COLLATERAL: This Financing Statement covers the types (or items) of collateral described in the Granting Clause contained herein.

3. REAL ESTATE: The collateral covered by this Financing Statement includes goods that are or are to become fixtures in or upon or related to the herein described real estate situated in the County of Sacramento, State of California, and more particularly described in the Granting Clause hereto. This Financing Statement is to be recorded in the real estate records of the County Recorder of the County of Sacramento, State of California.

4. RECORD OWNER: The name of the record owner of the real estate described above in paragraph 3 is the Elk Grove Community Services District Public Facilities Acquisition Corporation.

ARTICLE IV

POSSESSION, USE AND PARTIAL RELEASE OF MORTGAGED PROPERTY

Section 4.1. Subordination of the Lease. As provided in Section 4.4 of the Lease, the Lease and the Lessee's interest in the Mortgaged Property and its interest as lessee under the Lease shall at all times be subject and subordinate to the lien of this Mortgage; *provided, however,* that so long as no Event of Default shall have happened and be continuing hereunder, the Lease shall remain in full force and effect notwithstanding such subordination, and the Lessee shall not be disturbed by the Mortgagor or the Mortgagee in its possession, use and enjoyment of the Mortgaged Property during the term of the Lease or in the enjoyment of the Lessee's rights under the Lease.

ARTICLE V

EVENTS OF DEFAULT; REMEDIES UPON DEFAULT

Section 5.1. Events of Default. Any of the following events shall be deemed an “Event of Default” hereunder:

- (a) Default in the payment of Rentals when the same shall become due and payable; or
- (b) The occurrence of any Event of Default under the Lease; or
- (c) Subject to the provisions of Section 5.7 hereof, default in the performance or observance of any of the covenants, agreements or conditions on the part of the Mortgagor in this Mortgage not otherwise addressed in subsection (a) or (b) of this Section 5.1, and the continuance thereof for a period of sixty (60) days after written notice to the Mortgagor and the Lessee given by the Mortgagee or to the Mortgagee.

Section 5.2. Remedies Upon Default. Upon the occurrence and continuance of any Event of Default hereunder, the Mortgagee may commence an action to foreclose this Mortgage in the manner permitted by law against the Mortgagor’s right, title and interest in the Mortgaged Property in such manner and order as the Mortgagee may determine and as may be permitted by law and take one or any combination of the following additional remedial steps:

- (a) The Mortgagee may temporarily lease the Mortgaged Property or any portion thereof, pending sale of the Mortgaged Property.
- (b) Either in person or by agent, with or without bringing any action or proceeding, or by a receiver appointed by a court and without regard to the adequacy of its security, enter upon and take possession of the Mortgaged Property, or any part thereof, in its own name or in the name of the Mortgagor, and do any acts that the Mortgagee deems necessary or desirable to preserve the value, marketability or rentability of the Mortgaged Property, or part thereof or interest or space therein, increase the income therefrom or protect the security hereof and, with or without taking possession of the Mortgaged Property, sue for or otherwise collect the rents, issues and profits thereof, including those past due and unpaid, and apply the same, less costs and expenses of operation and collection, including attorneys’ fees, upon any obligations secured hereby, all in such order as the Mortgagee may determine. The entering upon and taking possession of the Mortgaged Property, the collection of such rents, issues and profits and the application thereof as aforesaid shall not cure or waive any default or notice of default, hereunder or invalidate any act done in response to such default or pursuant to such notice of default, and, notwithstanding the continuance in possession of the Mortgaged Property or the collection, receipt and application of rents, issues or profits, the Mortgagee shall be entitled to exercise every right and remedy provided for in the Master Lease or the Lease or now or hereafter permitted by law upon occurrence of any Event of Default.

(c) Exercise such rights and remedies with respect to the Lease and the leasehold estate created thereunder as the Mortgagee is entitled to exercise.

(d) Exercise any or all of the remedies available to a secured party under the California Commercial Code, as then in effect, with respect to property subject to this Mortgage that is covered by the California Commercial Code. Without limiting the generality of the foregoing, the Mortgagee shall have the right to take possession of any personal property or fixtures subject to the lien of this Mortgage and to take such other measures as the Mortgagee may deem as necessary for the care, protection, preservation and marketing of said personal property and fixtures. The Mortgagee may require the Mortgagor to assemble any such personal property or fixtures and make the same available to the Mortgagee at a place to be designated by the Mortgagee that is reasonably convenient to the Mortgagor. It is agreed that a commercially reasonable manner of disposition of personal property includes, without limitation, disposition with the real property in the manner provided above.

Section 5.3. Appointment of Receiver. Upon the occurrence of an Event of Default hereunder and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Mortgagor, the Mortgagee, as a matter of right and after at least five (5) days notice to the Mortgagor and the Lessee, and without regard to the then value of the Mortgaged Property or the interest of the Mortgagor, shall have the right to apply to any court having jurisdiction to appoint a receiver or receivers of the Mortgaged Property, and the Mortgagor hereby irrevocably consents to such appointment and, to the extent permitted by law, waives notice of any application therefor except as above provided. Any such receiver or receivers shall have all the usual powers and duties of receivers in like or similar cases and all the powers and duties of the Mortgagee in case of entry and shall continue as such and exercise all such powers until the date of confirmation of sale of the Mortgaged Property unless such receivership is sooner terminated.

Section 5.4. Remedies Not Exclusive. The Mortgagee shall be entitled to enforce payments and performance of any obligations secured hereby and to exercise all rights and powers under this Mortgage, the Lease or other agreement or any laws now or hereafter in force, notwithstanding some or all of the obligations secured hereby may now or hereafter be otherwise secured, whether by mortgage, deed of trust, pledge, lien, assignment or otherwise. Neither the acceptance of this Mortgage nor its enforcement, whether by court action or other powers herein contained, shall prejudice or in any manner affect the Mortgagee's right to upon or enforce any other security now or hereafter held by the Mortgagee, it being agreed that the Mortgagee shall be entitled to enforce this Mortgage, the Lease and any other security now or hereafter held by the Mortgagee in such order and manner as it may in its absolute discretion determine. No remedy herein conferred upon or reserved to the Mortgagee is intended to be exclusive of any other remedy herein or by law provided or permitted, but each shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute. Every power or remedy given by this Mortgage or the Lease may be exercised, concurrently or independently, from time to time and as often as may be deemed expedient by the Mortgagee, and the Mortgagee may pursue inconsistent remedies.

Section 5.5. Bidder at Foreclosure Sale. In the event of foreclosure on the lien of this Mortgage as provided herein, the Mortgagee may become the purchaser at any foreclosure sale, if the highest bidder, so long as such purchase is made consistent with law and this Mortgage. Upon any such foreclosure sale, the Mortgagee shall execute and deliver a deed or deeds of conveyance of the premises or estate sold to the purchasers thereof, and any statement or recital of fact in such deed shall be prima facie evidence of the truth of such statement or recital.

Section 5.6. Application of Moneys. All moneys received by the Mortgagee pursuant to any right given or action taken under the provisions of this Article V shall be deposited and applied by the Mortgagee in accordance with the Lease.

Section 5.7. Notice of Defaults Under Section 5.1(c); Opportunity of the Lessee to Cure Defaults. Anything herein to the contrary notwithstanding, no default under Section 5.1(c) hereof shall constitute an Event of Default until actual notice of such default by registered or certified mail shall be given by the Mortgagee to the Mortgagor and the Lessee, and the Lessee shall have had sixty (60) days after receipt of such notice to correct said default or cause said default to be corrected, and shall not have corrected said default or caused said default to be corrected, or if said default be such that it cannot be corrected within the applicable period, it shall not constitute an Event of Default if corrective action is instituted by the Lessee within the applicable period and diligently pursued until the default is corrected.

ARTICLE VI

MISCELLANEOUS

Section 6.1. Governing Law; Venue. This Mortgage shall be governed by and construed in accordance with the laws of the State of California. In the event that any provision or clause of this Mortgage conflicts with applicable laws, such conflicts shall not affect other provisions of this Mortgage that can be given effect without the conflicting provision, and to this end the provisions of this Mortgage are declared to be severable. This instrument cannot be waived, changed, discharged or terminated orally, but only by an instrument in writing signed by the party against whom enforcement of any waiver, change, discharge or termination is sought. Venue for any suit, action or proceeding arising out of or relating to this Mortgage and the transactions contemplated hereby shall lie exclusively in the State or Federal courts located in the County of Sacramento, State of California.

Section 6.2. Release of Mortgage. The Mortgagee shall release this Mortgage and the lien and security interest granted hereby by proper instrument or instruments (a) upon presentation of satisfactory evidence that all interests hereby secured have been fully paid or discharged and (b) whenever and to the extent that the Lease requires such release, including release pursuant to Section 2.2 or 2.3 of the Lease.

Section 6.3. Prepayment. The Lease contains certain provisions for the prepayment of the obligations set forth therein on various terms and conditions therein contained.

Section 6.4. Notices. Whenever the Mortgagor or the Mortgagee shall desire to give or serve any notice, demand, request or other communication with respect to this Mortgage, each such notice, demand, request or other communication shall be in writing and shall be effective only if the same is delivered by personal service, by overnight delivery service or by registered or certified mail, postage prepaid, return receipt requested, addressed to the addresses first hereinabove set forth for the Mortgagor and the Mortgagee, respectively. Any party may at any time change its address for such notices by delivering or mailing to the other party hereto, as aforesaid, a notice of such change.

Section 6.5. Captions. The captions or headings at the beginning of each Section hereof are for the convenience of the parties and are not a part of this Mortgage.

Section 6.6. Invalidity of Certain Provisions. If the lien of this Mortgage is invalid or unenforceable as to any part of the obligations secured hereby, or if the lien is invalid or unenforceable as to any part of the Mortgaged Property, the unsecured or partially secured portion of the obligations shall be completely paid prior to the payment of the remaining and secured or partially secured portion of the obligations, and all payments made on the obligations, whether voluntarily or under foreclosure or other enforcement action or procedure, shall be considered to have been first paid on and applied to the full payment of that portion of the obligations that is not secured or fully secured by the lien of this Mortgage.

DATED as of the day and year first above written.

MORTGAGOR:

ELK GROVE COMMUNITY SERVICES DISTRICT
PUBLIC FACILITIES ACQUISITION
CORPORATION

By _____

Name: _____

Title: _____

ATTEST:

Name: _____

Title: _____

MORTGAGEE:

AIG COMMERCIAL EQUIPMENT FINANCE,
INC.

By _____

Name: _____

Title: _____

ATTEST:

Name: _____

Title: _____

ACKNOWLEDGMENTS

[illegible]

On July __, 2006, before me, the undersigned, a Notary Public in and for said County and State, personally appeared _____ and _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the persons whose names are subscribed to the within instrument on behalf of Elk Grove Community Services District Public Facilities Acquisition Corporation and acknowledged to me that they executed the same in their authorized capacities, and that by their signatures on the instrument the persons, or the entity upon behalf of which the persons acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____

[SEAL]

STATE OF TEXAS)
) SS
COUNTY OF _____)

On July __, 2006, before me, the undersigned, a Notary Public in and for said County and State, personally appeared _____ and _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the persons whose names are subscribed to the within instrument on behalf of AIG Commercial Equipment Finance, Inc. and acknowledged to me that they executed the same in their authorized capacities, and that by their signatures on the instrument the persons, or the entity upon behalf of which the persons acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____

[SEAL]

EXHIBIT A

LEGAL DESCRIPTION OF THE MORTGAGED PROPERTY

The Mortgaged Property is situated in the City of Elk Grove, County of Sacramento, State of and is more particularly described as follows:

PARCEL 1:

Beginning at a stake on the Westerly boundary line of the right of way of the Southern Pacific Transportation Company, formerly Central Pacific Railway Company, at a point distant South 16° 29' East 33.135 chains from the intersection of the said Westerly boundary line of the right of way of the said railroad, with the center line of the Grant Line Road, so-called and running thence along the said Westerly boundary line of said right of way of the said railroad, South 16° 29' East 58.953 chains to its intersection with the Southern boundary line of the land formerly owned by Mrs. L.M. Graham; thence along the said Southern boundary line, North 66° 58' West 18.472 chains to the center line of Stockton Boulevard, formerly Upper Stockton Road, so-called; thence along the center line of said road, 39° 35' West 12.533 chains; North 38° 33' West 24.71 chains to a point opposite to a stake set in the Easterly boundary fence of the said Stockton Boulevard, the said point being also located South 38° 33' East 30.255 chains from the intersection of the center line of the aforesaid Stockton Boulevard with the center line of the aforesaid Grant Line Road; thence North 49° 22' East 31.245 chains to the place of beginning; containing 100 acres being the same land marked "Jos. Francis McAnaw 100 Acres", on map filed October 7, 1902, in Book 4 of Maps, Map No. 33. Said land being a fractional part of the Omochumnes Rancho as the same was finally subdivided and located in Township 6 North, Range 6 East, M.D.B.&M.

Excepting therefrom the following three (3) parcels:

(a) All that portion lying within that certain parcel described in the Deed for James R. Guttridge and Minnie L. Guttridge, husband and wife, as joint tenants, to the State of California, dated February 28, 1957, recorded May 23, 1957, in Book 3306 of Official Records, Page 23.

(b) All that portion lying Northwesterly of the following described line: Beginning at the Easterly end of that certain and distance designated "(5) N. 51° 29' 52" E. 100.21" in the Deed from James R. Guttridge and Minnie I. Guttridge, husband and wife, as joint tenants, to the State of California, dated February 28, 1957, recorded May 23, 1957, in Book 3306 of Official Records, Page 23; thence from said point of beginning Northeasterly 1193.63 feet, more or less, to a point on the Westerly boundary line of the Southern Pacific Transportation Company right of way located Southerly, along said right of way 3905.00 feet from the intersection of said Westerly boundary line with the center line of Grant Line Road.

(c) All that portion of projected Sections 17 and 18, Township 6 North, Range 6 East, M.D.B.&M. within Rancho de Los Omochumnes, being a portion of that certain tract designated "Jos. Francis McAnaw 100 Acres" shown on the Plat entitled "Tract of Land Owned by

Mrs. L.M. Graham", recorded in the office of the Recorder of Sacramento County, on October 7, 1902, in Book 4 of Maps, Map No. 33, described as follows: Beginning at a point on the Westerly right of way line of The Southern Pacific Transportation Company, formerly Western Pacific Railroad, said point being located South 16° 16' 35" East 1718.09 feet from the most Northerly corner of said "Jos. Francis McAnaw 100 Acres"; thence from said point of beginning along said Westerly right of way line South 16° 16' 35" East 605.74 feet; thence South 52° 44' 36" West 518.73 feet; thence North 39° 56' 54" West 557.06 feet; thence North 52° 03' 22" East 761.83 feet to the point of beginning.

Assessors Parcel No. 134-0220-060

Assessors Parcel No. 134-0220-061

PARCEL 2:

A portion of that certain real property in Sections 17 and 20, T. 6N., R. 6E., M.D.B.&M., acquired by the State of California from Joe Cascarano and Estella Cascarano, his wife, by Deed dated June 11, 1956, recorded July 24, 1956, in Book 3124 of Official Records, Page 567.

Said portion being all of said property lying Northeasterly from the following described line:

Beginning at a point from which a California State Highway Monument distant 59.00 feet from Engineer's Station "B" 23+17.40 B.C. as per Sheet 10 of 17, Road X-Sac-4-B, approved August 29, 1933, filed September 30, 1953, in State Highway Map Book No. 3, at Page 93, Records of Sacramento County, bears S. 27° 29' 54" E. 352.22 feet, said point is also distant 92.00 feet Northeasterly, measured at right angles from Engineer's Station "B3" 26+63.18 E.C. of the base line of the Department of Public Works Survey from 1 1/2 miles South of Consumnes River to 1/2 mile South of Elk Grove Road, road II-Sac-4-B; thence from said point of beginning (1) S. 41° 61' 22" E. 520.13 feet; thence (2) S. 43° 47' 45" E. 634.78 feet; thence (3) S. 48° 13' 05" E. 700.46 feet; thence (4) S. 43° 47' 45" E. 438.88 feet, to a point distant 146.00 feet Easterly, measured radially from Engineer's Station "B3" 3+62.75 of said base line and survey.

Excepting Therefrom the following:

All that certain real property in Sections 17 and 20, Township 6 North, Range 6 East, M.D.B.&M., described as follows: Beginning at a point from which the intersection of the Westerly right of way line of the Southern Pacific Railroad Company, a 100.00 foot right of way, and the centerline of Grant Line Road bears North 16° 29' 00" West 6077.81 feet; thence from said point of beginning South 16° 29' 00" East 250.00 feet; thence South 73° 21' 00" West 80.00 feet; thence North 16° 29' 00" West 313.15 feet; thence South 66° 58' 00" East 103.70 feet to the point of beginning.

Assessors Parcel No. 134-0220-011

APN: 134-0220-011 & 060 & 061

[Legal Description to be corrected to conform to survey pending review]